

Submission to the NSW Local Government Grants Commission: Review of the Financial Assistance Grants Allocation Methodology

1. Introduction

Balranald Shire Council appreciates the opportunity to submit the Commission's review of the methodology for the distribution of Financial Assistance Grants (FAGs).

Council supports the Commission's long-standing application of horizontal fiscal equalisation (HFE) principles, whereby:

Each council should have the capacity to provide a standard level of service if it makes a standard effort to raise revenue.

This submission is directed to the treatment of expenditure disabilities, specifically the extent to which the current methodology recognises the additional costs associated with remoteness and distance.

2. Expenditure Disabilities – Conceptual Alignment

The Commission's methodology seeks to assess each council's **standardised expenditure** by applying a range of expenditure disabilities reflecting factors outside a council's control.

Council acknowledges the inclusion of disabilities such as:

- Population dispersion
- Land area
- Road length
- Climatic and environmental factors

These variables are intended to reflect the increased costs of service delivery across geographically large and sparsely populated local government areas.

However, Council submits that:

The current disability framework may fail to fully capture the cost impact of remoteness as a distinct and measurable expenditure disability.

3. Limitation of Current Disability Proxies

The existing approach relies on structural indicators (e.g. dispersion, area, asset length) as proxies for cost.

While these are appropriate at a high level, they do not directly measure input cost differentials, particularly those arising from:

- Distance to supply markets
- Freight and logistics costs
- Contractor mobilisation and demobilisation
- Labour market constraints
- Limited supplier competition

Accordingly:

Councils with similar structural characteristics (e.g. road length or area) may face materially different standardised expenditures due to unrecognised cost drivers.

This results in an underestimation of expenditure needs for more remote councils.

4. Remoteness as an Uncaptured Expenditure Disability

Council submits that **remoteness should be more explicitly recognised as a cost disability within the standardised expenditure framework.**

For councils such as Balranald, remoteness gives rise to:

4.1 Higher Unit Costs of Infrastructure Provision

- Elevated construction costs per kilometre due to freight inputs
- Higher contract prices due to limited market competition
- Increased project overheads related to mobilisation

4.2 Increased Operating and Maintenance Costs

- Greater travel distances for the workforce and mobile plant
- Reduced operational efficiency
- Higher fuel and logistics costs

4.3 Labour Cost Pressures

- Difficulty attracting and retaining skilled staff

- Reliance on external contractors at premium rates

4.4 Reduced Economies of Scale

- Small population base relative to infrastructure footprint
- High fixed costs distributed across a limited rating base

These factors collectively represent a **systematic and unavoidable cost disability** that is not fully reflected in current relativities.

5. Implications for Standardised Expenditure and Relativities

As a consequence of the above:

- Standardised expenditure assessments are understated for remote councils
- Resulting relativities are compressed, reducing the equalisation outcome
- The methodology does not fully achieve its objective of equalising service delivery capacity

Council submits that this creates a **structural bias against remote councils**, contrary to the intent of HFE.

6. Opportunities for Methodological Refinement

Council recognises the Commission's need to balance:

- Accuracy
- Data availability
- Stability of outcomes

Within this context, Council proposes the following refinements:

6.1 Introduction of a Remoteness Cost Disability (Preferred)

Incorporate a specific disability factor reflecting cost differentials associated with remoteness, applied to relevant expenditure categories (e.g. transport, infrastructure, works).

Potential data inputs could include:

- Distance to major service centres

- ABS remoteness classifications
- Regional cost indices

6.2 Enhancement of Existing Disabilities

Alternatively, existing factors (e.g. dispersion, road length) could be refined to incorporate:

- Cost-weighted measures rather than purely structural measures
- Interaction effects between remoteness and infrastructure extent

6.3 Use of Proxy Indicators

Where direct cost data is not available, proxies may include:

- Freight cost indices
- Fuel price differentials
- Construction cost loadings by region

7. Consistency with Broader Equalisation Frameworks

The recognition of remoteness as a cost driver is consistent with methodologies applied by the Commonwealth Grants Commission, where geographic isolation is explicitly reflected in expenditure assessments.

Greater alignment with these principles would strengthen the robustness and credibility of the NSW methodology.

8. Sector Implications

This issue extends beyond a single council and is relevant to a cohort of rural and remote councils across NSW.

Council notes that this matter may also be of interest to:

- Local Government NSW
- Country Mayors Association

A refined approach would improve equity across the local government sector.

9. Conclusion

Balranald Shire Council submits that:

The current methodology does not fully recognise remoteness as a distinct expenditure disability, resulting in an underestimation of standardised expenditure for remote councils.

Addressing this gap would:

- Improve the accuracy of relativities
- Strengthen horizontal fiscal equalisation outcomes
- Better reflect the real cost of service delivery in rural and remote NSW

Council welcomes the opportunity to participate in further consultation as the review progresses.

Yours sincerely



Terry Dodds PSM
Chief Executive Officer
Balranald Shire Council