Department of Planning, Housing and Infrastructure
Office of Local Government

Our reference: A1020255

Clr Paul Culhane
Mayor
Upper Lachlan Shire Council

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4 September 2026

Dear Clr Culhane,

I write to provide an update on the NSW Local Government Grants Commission's (the Commission) review of the methodology for how the Commonwealth Government's budgeted Financial Assistance Grants (FA Grants) are allocated to NSW councils. As foreshadowed, this review is being conducted in response to advocacy from the NSW peak local government bodies to ensure improvements to the methodology are made, that it complies with the legislation, is fairer, more transparent and is based on the most correct data available.

The Commission understands that any change to the way grants are distributed is very important for councils and your communities. For this reason, we are seeking council and stakeholder feedback on the draft methodology, as proposed in this letter, before any final decision about the allocation methodology is made.

As all councils understand, this draft proposal cannot change the total Commonwealth funding pool available to NSW councils. Instead, this draft methodology may change how that funding is distributed between councils, with the aim of meeting the legal requirements of the grants, which includes better reflecting each council's relative financial need.

Further information about the key methodology changes is provided at **Attachment A** to support your Council's consideration of the proposal.

To assist with planning and feedback, the table below shows your Council's indicative funding under the draft proposal, assuming the annual NSW amount does not change. These figures are estimates only – as the Commonwealth Government controls the total amount, and this varies with their budget allocation. However, we are providing you this estimate to help councils understand the possible effect of the proposed changes.

	General Purpose Component $	Local Road Component $	Total $
2025-26 Actual	4,316,586	2,759,983	7,076,569
Proposed Methodology	353,208	3,518,586	3,871,794

The Commission would welcome your council's views on the draft methodology, including its practicality, transparency, fairness, data sources, potential impacts, risks and any opportunities for improvement. In particular, if you have views on the methodology or data sources, we will welcome your views on alternative methodologies or data sources to use.

The methodology presentation and submission template guide are available on the Office of Local Government website here. Your feedback on the methodology and data sources will help the Commission understand how the proposal may affect councils in practice before we finalise our approach. Submission should be provided **by 9 October 2026** to grantscommission@olg.nsw.gov.au.

Thank you for the important work you and all NSW councils do to support your communities and the financial sustainability of council.

Yours sincerely

Linda Scott
Chair
Local Government Grants Commission

Attachment A – Summary of proposed methodology changes

General Purpose Component

The proposed methodology change uses a balanced-budget approach, which is used by the majority of other Australian jurisdictions. In simple terms, this compares what each council is expected to need to spend with what it is reasonably able to raise in revenue.

This provides a more complete picture of a council's financial position and is intended to ensure funding is allocated fairly, consistently and to better align with the Legislative Instrument - National Principles. The model supports the principles of horizontal fiscal equalisation and effort neutrality. This means councils should be able to provide a comparable level of service through reasonable revenue and expenditure effort, without grant outcomes being driven by individual policy choices. The proposed approach looks at both the cost of delivering local services and a council’s ability to raise revenue.

As required under the National Principles, 30 per cent of the General Purpose Component (GPC) funding pool must be distributed on a per-capita basis. This means this part of the funding is allocated to councils based on population. The remaining funding would be distributed according to assessed financial need, with financial need being measured as the gap between a council’s modelled expenditure need and modelled revenue capacity, compared with the NSW average.

The proposed methodology would:

1 Allocate 30% per capita to all councils	**2** Estimate expenditure need and revenue capacity	**3** Allocate 70% according to financial need

Table 1 compares the previous and proposed methodology:

Area	Previous methodology	Proposed methodology
Minimum grant	Allocated after the needs assessment, adding complexity	Allocate 30% of the GPC to all councils on a per capita basis before assessing need
Definition of need	Expenditure need and revenue capacity assessed separately and relative to state averages	Use a balanced-budget approach that accounts for expenditure need and revenue capacity together
Expenditure data	Six expenditure categories; not all expenditure covered; reliance on unaudited disaggregated reporting	One aggregated operating expenditure measure using data aligned more closely with audited totals; water and sewer excluded
Expenditure drivers	The model did not account for remoteness	Model accounts for population, Aboriginal and Torres Strait Islander population, ARIA+ remoteness and the interaction between population and remoteness

Area	Previous methodology	Proposed methodology
Revenue capacity	Rates capacity based mainly on land values and aggregated urban/non-urban categories; limited treatment of other revenue	Residential rates based on household income; business, farmland and mining rates assessed using land values; include modelled user fees and charges and a four-year average of operating grants
Adjustments	Separate relative disability allowance and post-model adjustments increased complexity	Remove the separate disability allowance and rely more directly on the model
Local roads	Fixed weightings and separate urban/rural treatment using population, road length, bridge length and remoteness	Use council-reported road and bridge length, adjusted by regional construction cost differences (estimated using Rawlinsons regional construction cost indices)

Table 2 identifies the expenditure need and revenue capacity drivers for the draft methodology of the General Purpose Component:

Expenditure Need	Revenue Capacity
• Modelled as the average operating cost per person expected for a council with similar structural characteristics, rather than the council's chosen or actual spending in a single year • Based on total operating expenditure, excluding water and sewer services, using four years of data • Population: smaller councils are generally assessed as having higher per capita costs because fixed costs are spread across fewer residents • Aboriginal and Torres Strait Islander population: recognises additional service-delivery needs and the relevant National Principle • ARIA+ remoteness recognises isolation-related costs such as freight, travel and access to specialised labour • Population and remoteness interaction recognises that the per capita cost effect of isolation is greater for small remote councils • The model produces a per capita expenditure need for each council using common statewide coefficients	• Estimated as what a council should reasonably be able to raise on average, rather than the revenue it chooses to collect in a particular year • Residential rates: assessed using average household income and the number of households, reflecting affordability and the size of the residential base • Business, farmland and mining rates: assessed separately using land values and category-specific statewide benchmarks • User fees and charges: estimated statistically from council characteristics, excluding water and sewer charges, to preserve effort neutrality • Operating grants: included as a four-year council average as grant support must be recognised and varies considerably between years • The combined rates, user fees and charges, and operating grants produce a per capita revenue-capacity estimate for each council

Under the draft methodology, financial need equals expenditure need minus revenue capacity. Councils, above the weighted NSW average financial need receive a needs-based grant; other councils receive the minimum per capita grant only.

Local roads component

The proposed methodology identifies road need using each council's reported local road and bridge network length, adjusted for regional differences in construction costs via the Rawlinsons Australian Construction Handbook indices. The respective index figures give an indication of how total building project costs vary across NSW, which is used to proxy variations in road maintenance costs. Where a council-specific index is not available, it is estimated using population and ARIA+ remoteness.

Road type, condition and usage are not directly included because comprehensive, consistent and audited data are not available.

Adjustment to ensure national principles are addressed

The methodology recognises that regional, rural, and remote councils often face higher service delivery costs – for this reason, remoteness is included as an important factor in assessing relative need. The methodology also recognises the needs of Aboriginal and Torres Strait Islander communities, consistent with the National Principles.

The Commission's preferred option includes a safeguard for the 14 most remote NSW councils (Accessibility and Remoteness Index of Australia - or ARIA - score above 6), ensuring they do not receive less funding than they currently receive. The Commission has noted that these councils face unique service delivery challenges, have limited capacity to generate revenue locally, and rely heavily on grant funding. The safeguard provides greater funding certainty for these communities.