



Department of **Local Government,  
Industry Regulation and Safety**  
**WA Local Government Grants Commission**

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Committee Secretary  
House of Representatives Standing Committee on Regional Development, Infrastructure  
and Transport  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Committee Members

## **SUBMISSION TO FEDERAL INQUIRY INTO LOCAL GOVERNMENT FUNDING AND FISCAL SUSTAINABILITY**

### **General Comments**

#### Context

The Commission is a statutory body established under the *Local Government Grants Act 1978*, which would like to provide the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport the following information regarding the inquiry into local government funding and fiscal sustainability related to Western Australian local governments.

The following is an update to the submission previously provided to the Inquiry into Local Government Sustainability provided by the WA Local Government Grants Commission (**Commission**) dated 31 May 2024.

Western Australia has the nation's most diverse local government sector, comprising of 137 local governments which vary greatly in their characteristics.<sup>1</sup> Over 90 per cent of Western Australia's population resides in the largest 40 local governments, with the remaining 10 per cent spread across the remaining 97 local governments.

The Commission is responsible for distributing the Federal Government's Financial Assistance Grants (**FA Grants**) to local governments within WA. The Commission's methodology provides higher levels of funding to local governments that are regional, rural and remote, recognising the significant challenges that are faced by local government in remote locations, as required by the Principles in the Act.

An analysis of 2023-24 local government revenue against the 2023-24 FA Grant allocations highlighted that out of the 137 local governments in WA, the FA Grant funding allocation

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<sup>1</sup> Additionally, there are a further two Indian Ocean Territories and 10 regional local governments established under the Local Government Act 1995.

represented:

- 50% or more of the total revenue for 7 local governments
- between 40 and 49% of total revenue for 10 local governments
- between 30 and 39% of total revenue for 29 local governments; and
- between 20 and 29% of total revenue for 20 local governments.

This highlights the significant reliance many local governments have on FA Grants to subsidise their revenue and service delivery.

Any reductions to FA Grant arrangements could disproportionately impact WA local governments, particularly in relation to the ongoing sustainability of those in regional WA. The disproportionate effect arises from the population distribution with WA. WA's largest local government has a population of 249,800<sup>2</sup> whereas the smallest has a population of 105<sup>3</sup>, with 56 of WA's local governments having a population of less than 1,500 people. This inherently impacts their comparative ability to raise revenue and the expenditure required to operate a local government in a sustainable manner presently and into the future.

### General Purpose Grant

The General Purpose Grant (**GPG**) funding provided to local governments is allocated primarily based on horizontal equalisation to try to ensure that each local government in the State is able to function at a standard not lower than the average standard of other local governments. As per the minimum grant principal, however, all local governments, regardless whether they have a grant need or not, are entitled to receive a minimum GPG that is not less than 30% of what the local government would receive if all grants were allocated on a per capita basis (**minimum grant**).

The balanced budget approach has been used to calculate GPGs since 1994. The Commission calculates the equalisation requirement of each local government by assessing the revenue raising capacity and expenditure need of each local government. Five categories (called standards) are used to calculate revenue raising ability and six categories are used to establish expenditure needs.

The equalisation requirement (the quantum of the grant) is the difference between the assessed expenditure need and the assessed revenue raising capacity of each local government. The Commission has developed a range of cost adjustors (for example: location and socio-economic disadvantage) and these are included in calculating the expenditure standards to recognise the additional costs a local government faces due to its physical or demographic characteristics.

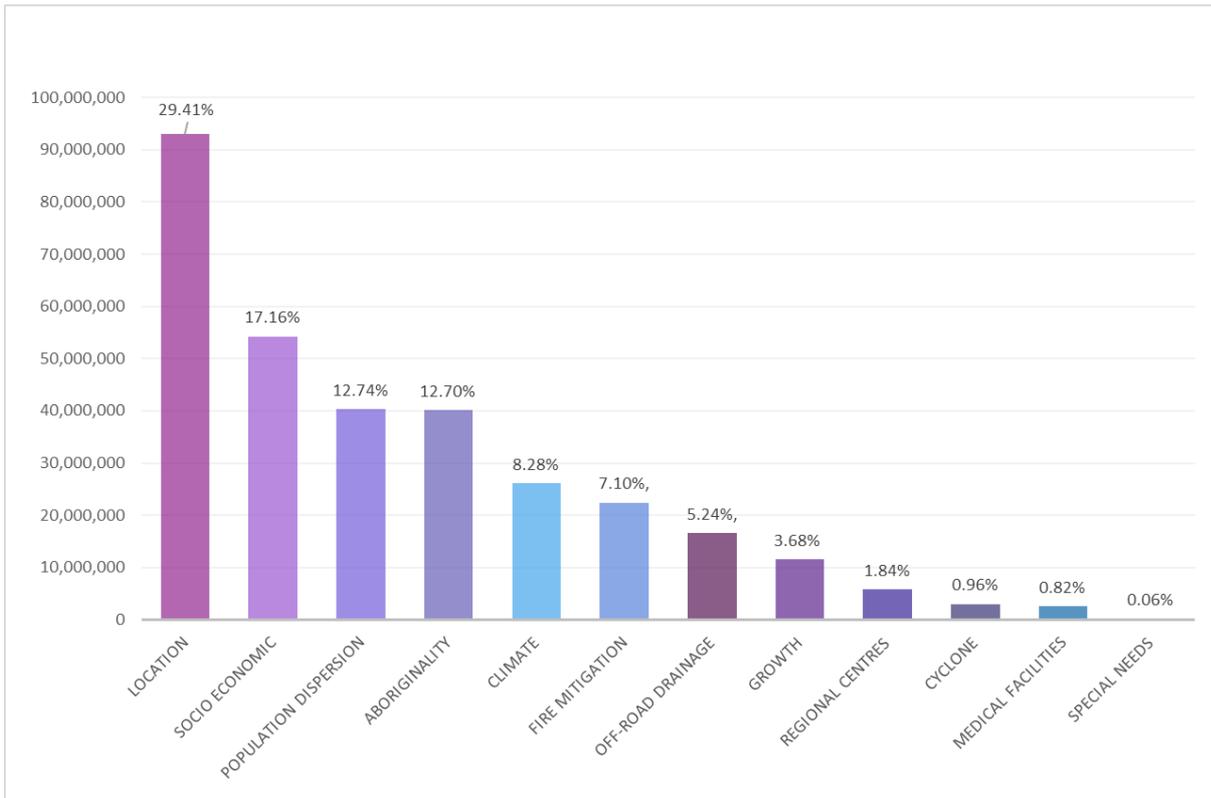
Figure 1 shows the percentage and the proportion of the allocation of funds from the GPG pool share for each of the 12 cost adjustors.

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<sup>2</sup> City of Stirling

<sup>3</sup> Shire of Murchison

**Figure 1: Cost Adjustor Amounts for 2025-26**



In 2025-26, 35 of the 137 local governments in Western Australia received the minimum grant entitlement, which equated to \$26.45 per capita. Collectively, the local governments receiving the minimum grant accounted for \$61.05m (23 per cent) of the total GPG funding pool while comprising 77.8 per cent of the State’s population.

The Commission calculates the “Equalisation Need” for GPG funding for all local governments, based on the calculation of the revenue-collecting capacity of each local government, and magnitude of expenditure each local government would be required to incur to deliver a consistent general standard of services across the State.

The Commission is unable to distribute on a full horizontal equalization basis due to the size of the GPG pool being approximately<sup>4</sup> 25 per cent smaller than the Commission’s assessment of the relative need (equalisation need) for local governments in WA in 2025-26. In 2025-26, the GPG funding received by the State allowed for 75 per cent of calculated grant need (the ‘scaleback’) to be paid to all local governments.

It is noted that while the gap between the scaleback and the available funding is smaller than in some other jurisdictions, this is largely attributable to the:

- vastly different scales and responsibilities of the local government sectors between jurisdictions;
- significantly lower level of average service to equalise to in Western Australia, particularly due to the influence of the number of small rural and remote councils; and

<sup>4</sup> This is approximation as the relative size of the GPG pool compared to the Commission’s calculations vary year on year. This has fluctuated between 44 percent to 31 per cent over recent years.

- different methodologies used by each State to determine their local governments grant need. Several councils that are assessed as a minimum grant local government in Western Australia, would likely be assessed as having a greater grant need if calculated under another jurisdiction’s methodology.

The Commission also undertakes the calculations for the Indian Ocean Territories (**IOTs**) as per a service delivery agreement between the Federal and State Government. The IOTs GPG funding is based on a modified version of the balanced budget with additional cost adjustors which relate to the IOTs unique circumstances. The funding provided for the GPG and Roads is separate (additional) to the WA’s FA Grant allocation.

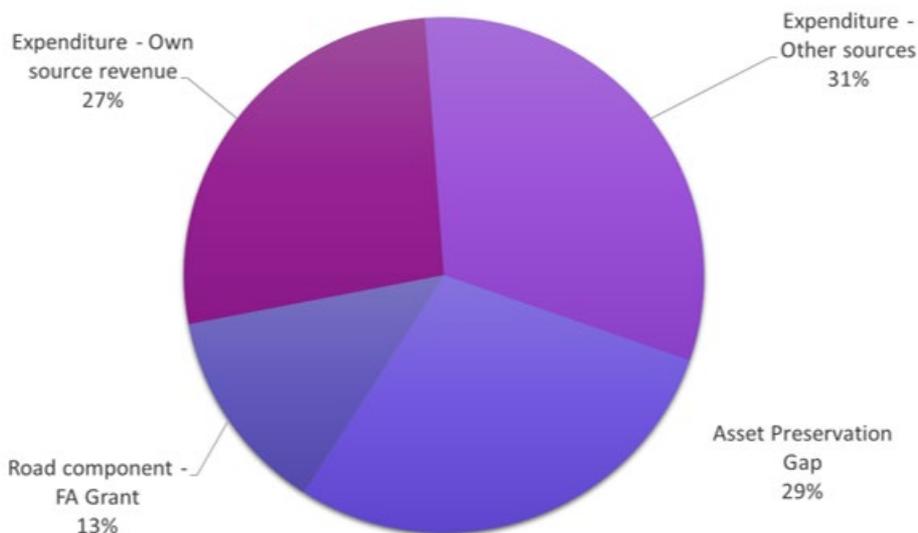
Roads

The Commission uses an Asset Preservation Model (**APM**) for local road funding. This model is used to assess the cost of maintaining a local government’s road network and considers annual and recurrent maintenance costs and the costs of reconstruction at the end of a road’s useful life.

In WA, 93 per cent of funding is allocated to local roads with the remaining seven per cent allocated for special works on bridges and Aboriginal access roads. Of the seven per cent, one third of the special project funds is allocated to roads serving remote Aboriginal communities to better meet the needs of Aboriginal communities.

In 2025-26 the Road Grant funding allocation to WA was \$161.9m of which \$150.5m was distributed to roads by the APM distribution. As demonstrated in Figure 3, the Roads - FA Grants contributed only 13% of the total asset preservation need. The remaining \$11.4 million of road funding is allocated through the aforementioned special project funds.

**Figure 3: Road Maintenance Expenditure**



Other information

The Commission’s primary function is to determine and recommend the Final Grant Schedule of FA Grants prior to first quarter payments that are made mid-August. The

Schedule of Payments contains all the information relating to each local government's FA Grants, including the GPG, road grants and special project grants where applicable. The Balanced Budget details the calculation of each local government's general purpose grant. Both documents are made available to local governments on the LGIRS's web page.<sup>5</sup>

The Commission is required to adjust to keep up with changes in local government circumstances to ensure that its methods reflect the operations of the industry. As part of this process, the Commission holds public hearings and visits local governments on a four-year cycle to provide an opportunity for local governments to make submissions to the Commission and advise of any issues they are facing.

During visiting programs over the last few years, there have been recurring issues communicated with the Commission relevant to this Inquiry, these include:

- Increase of services provided by local governments;
- Housing availability and costs;
- Staff attraction and retention of skilled workers;
- Road conditions and maintenance; and
- Ability to raise required funds through limited available revenue streams.

While not exclusive to regional areas, many of the issues affect regional local governments far more than their metropolitan counterparts.

The Commission also receives submissions from local governments seeking modifications to the grant determination methodology and process so that it will reflect their needs more effectively.

### **Indexation Freeze**

The Commission notes the new Inquiry's Terms of Reference identified the impact of the indexation freeze of grants.

In the May 2014 Budget, the Federal Government announced that there would be an indexation freeze of the FA Grants for 2014-15, 2015-16 and 2016-17. The Commission executive staff provided modelling to the Federal Government in December 2015, estimating a cumulative loss of approximately \$51 million in that three-year period. At the time, it was noted the decision would impact the funding allocation to WA (and other jurisdictions) forever, due to the subsequently lower base the FA Grants indexation would be based on in the future.

The indexation freeze modelling has been revised as part of this submission to determine the total potentially lost by WA since 2014-15 to the present day. It is estimated the cumulative amount since the 2014-15 freeze is now conservatively over \$300 million.

### **Advance payments of Financial Assistance Grants**

The continued use of advance payments of next financial years' FA Grants to local

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<sup>5</sup> <https://www.dlgsc.wa.gov.au/local-government/local-governments/financial-assistance-grants>

governments on short notice in the prior financial year (ie. an advance of 2025-26 funds paid in June of the 2024-25 financial year) have continued to cause problems for local governments and Commission alike. The amount advanced can vary significantly from year to year, with recent examples seeing advances of 100 per cent, 85 per cent and 50 per cent of funding. The significant variances create uncertainty for local government budgeting and cash flows (as to the quantum of advance as well as if it will occur) and challenges for Grants Commissions in distributing funds equitably.

In Western Australia, when a 100 per cent advance of the 2023-24 grants was paid to local governments, it resulted in many local governments being under or overpaid as the allocations were based on older calculations and had not considered changes in indicator data. This was exacerbated by a further 85 per cent advance of funds in 2024-25. This required the Commission to make adjustments for several subsequent years to recover overpayments and address underpayments. Adjustments meant a number of small regional local governments were required to receive significantly reduced grants in future years to adjust for the overpayments they had received. Additionally, some funding was never able to be recouped due to restrictions within the legislation, particularly the minimum grant principle, which stopped the Commission from reducing funding to some local governments any further.

When used appropriately, the administrative impact of advance payments while at times inconvenient for local governments and the Commission, can be managed. But when the advance represents such a large proportion, the impact can have unintended consequences on local government cash flow and the Commission's allocation methods. It would be preferable that the use of such large advances are not used again, as they hinder the Commission's ability to provide funding on a horizontal equalisation basis.

Thank you again for the opportunity to provide comment on the Inquiry into the Financial Sustainability and Funding of Local Government.

Should you have any queries, please contact the Grants Commission on 08 6552 1673 or by email [grants.commission@lgirs.wa.gov.au](mailto:grants.commission@lgirs.wa.gov.au).

Yours sincerely

A solid black rectangular box used to redact the signature of Wendy Giles.

**Wendy Giles**

Chair

WA Local Government Grants Commission

9 January 2026