

Conversation Starter CS23–01 :

Allocation of a share of the Base Grant on a per capita basis

IN PREPARING ITS RECOMMENDATIONS ON THE ALLOCATIONS OF THE BASE GRANT:

- SHOULD THE COMMISSION CONTINUE TO ALLOCATE 30 PER CENT OF THE BASE GRANT TO ALL COUNCILS ON A PER CAPITA BASIS?
- IF NOT, WHAT ALTERNATIVE APPROACH SHOULD BE ADOPTED BY THE COMMISSION?

As part of its process of continual improvement, the State Grants Commission regularly seeks council feedback and comments on its approach to developing recommendations for allocating financial assistance grants across Tasmania's 29 councils.

The Commission is seeking feedback from councils on whether the current approach of allocating 30 per cent of the base grant (\$12.49 million for 2022-23) to all councils on a per capita basis remains appropriate.

The Commission is also seeking feedback from councils on how any grant revenue not allocated on a per capita basis should be distributed between councils.

Background

Under the Australian Government's *Local Government (Financial Assistance) Act 1995*, the Commission must apply National Principles in developing recommendations for allocating the base (general purpose) grant across councils (\$41.62 million in 2022-23).

One National Principle specifies the minimum grant, as set out below:

Minimum Grant

The minimum general purpose grant allocation for a local governing body in a year will not be less than the amount to which the local governing body would be entitled if 30 per cent of the total amount of general purpose grants to which the State or Territory is entitled under Section 9 of the Act in respect of the year were allocated among local governing bodies in the State or Territory on a per capita basis.

This principle sets the minimum grant amount that a council is entitled to receive in a year. It does not automatically entitle all councils to a per capita share of 30 per cent of the base grant. Also, it does not require the minimum grant to be calculated, at the outset, as the per capita share of 30 per cent of the base grant, merely that the value must equal it by the end of the process.

The policy of the State Grant Commission is to allocate 30 per cent of the base grant to councils on a per capita basis, and the remaining 70 per cent on an assessed 'relative needs' basis. This determines, at the outset, the base grant allocations to the minimum grant councils

Other commissions adopt a different approach. Several commence by allocating the entire base grant on a relative need basis and, for those

councils that are classed as minimum grant councils, their grant is increased or decreased, such that the minimum grant National Principle is applied.

(As an example, a commission may start by allocating all base grant funds on a relative needs basis. If a minimum grant council is allocated \$2.0 million on that basis but the minimum grant must be \$2.5 million under the National Principle, the commission would allocate an additional \$500 000 and scale back the allocations to other councils.)

For Tasmania for 2022-23, the base grant allocations to the minimum councils accounted for around 15 per cent of the base grant.

Up to 85 per cent of the base grant could be allocated on a relative needs basis. Currently, however, a further 15 per cent is allocated on a per capita basis - to all other councils - and the remaining 70 per cent is allocated on a relative needs basis.

This current policy has the effect of providing relatively high allocations to populous councils with a small level of assessed relative need, such as the Burnie and Devonport City Councils.

Councils with small populations and a high level assessed relative need would benefit from an alternative approach under which more of the base grant is allocated according to assessed relative need.

A guide of the impact of one alternative approach on councils is shown in Table 1. Under this approach 85 per cent is allocated according to assessed relative need. The allocations for 2022-23, prior to applying the constraints of the caps and floors, are shown in the second column.

The allocations where only the per capita values for minimum grant councils are deducted from the base grant are shown in the third column. This makes an additional 15 per cent, or around \$6.5 million available to be allocated according to assessed relative need.

The councils that would receive a large increase in their allocations include the Southern Midlands, West Coast and Central Highlands Councils. As a proportion of their annual budgets, this would represent a significant additional increase.

Those councils that would receive a smaller allocation include the Devonport City,

Brighton, Burnie City and Sorell Councils.

The effect of the Commission's current policy is that the larger councils with some level of relative need receive a relatively large grant due to the population in the municipality, not all of which is driven by their level of assessed relative need.

There are other approaches that the Commission could adopt. For example, it could allocate five per cent or 10 per cent of the base grant to each 'relative need' council on a per capita basis and then allocate the remainder on a relative needs basis.

Alternatively, the Commission could retain the current policy.

Table 1: Options for allocating the per capita component of the base grant

Council	Population	Current Policy: Base Grant Allocation prior to Caps and floors (30% rule)¹ 2022-23 \$	One alternative approach prior to Caps and floors² 2022-23 \$	Variance 2022-23 \$
Break O'Day	6 506	1 423 882	1 544 834	120 952
Brighton	18 595	1 491 706	1 288 880	- 202 826
Burnie	19 646	1 697 350	1 508 879	- 188 471
Central Coast	22 176	2 734 855	2 696 358	- 38 497
Central Highlands	2 160	1 032 564	1 191 839	159 275
Circular Head	8 193	1 451 125	1 530 676	79 551
Clarence	59 251	1 366 813	1 366 813	0
Derwent Valley	10 516	1 427 366	1 436 874	9 508
Devonport	25 635	1 630 571	1 260 338	- 370 233
Dorset	6 689	1 520 192	1 656 517	136 325
Flinders	1 021	763 647	897 568	133 921
George Town	7 048	1 313 992	1 396 399	82 407
Glamorgan-Spring Bay	4 768	109 989	109 989	0
Glenorchy	47 289	1 090 871	1 090 871	0
Hobart	54 251	1 251 472	1 251 472	0
Huon Valley	18 239	2 101 200	2 038 021	- 63 179
Kentish	6 479	1 529 722	1 673 949	144 227
King Island	1 603	844 084	978 839	134 755
Kingborough	38 618	890 847	890 847	0
Latrobe	12 204	1 192 222	1 104 472	- 87 750
Launceston	68 388	1 577 587	1 577 587	0
Meander Valley	20 322	2 313 327	2 237 007	- 76 320
Northern Midlands	13 852	1 294 022	1 181 828	- 112 194
Sorell	16 230	1 335 402	1 165 484	- 169 918
Southern Midlands	6 493	1 896 355	2 118 201	221 846
Tasman	2 512	566 536	616 805	50 269
Waratah-Wynyard	13 946	1 827 486	1 826 169	- 1 317
West Coast	4 116	1 487 708	1 689 104	201 396
West Tamar	24 569	2 460 949	2 297 223	- 163 726
State Total	541 315	41 623 842	41 623 842	0

Notes:

¹The current policy of the State Grants Commission is to allocate 30 per cent of the base grant to councils on a per capita basis, and the remaining 70 per cent on an assessed relative needs basis.

² This shows the impact of firstly allocating the base grant to councils on the basis of assessed relative need, and then making adjustments to ensure that the minimum grant councils receive the minimum grant only, consistent with the National Principles.

The Commission would appreciate feedback from councils on whether the Commission should develop its recommendations for the base grant allocations by:

- continuing to allocate 30 per cent of the base grant to all councils on a per capita basis and 70 per cent according to assessed relative need; or
- adopting an alternative other approach that ensures the minimum grant councils receive their minimum grants and some, or all, of the remaining base grant is allocated according to assessed relative need.

Submissions deadline

To enable discussion at the Commission's 2023 Hearings and Visits which are expected to commence during February 2023, submissions should be received by Friday 28 January 2023.

These Conversation Starter flyers are not intended to be detailed papers. Council submissions on Conversation Starter issues can take any form councils wish – written and/or discussion at the 2023 Hearings and Visits.

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