Review of Financial Assistance Base Grant Methodology

The impacts of removing the per capita allocation to all councils and estimating councils' expenditure requirements based on the service population

Discussion Paper DP23-01

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STATE GRANTS COMMISSION

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Contents

Executive Summary

The Commission has examined the impacts of changing its approach to preparing recommendations for the allocation of the base grant component of the Financial Assistance Grants, following the generally positive feedback from two Conversation Starters issued in December 2022 and February 2023.

These proposed changes relate to the allocation of a share of the base grant on a per capita basis and basing councils' expenditure requirements on estimates of the service population.

This paper examines how the Commission's 2023-24 recommendations for the allocation of the base grant would have been different:

- if the Commission no longer allocates 30 per cent of the base grant to all councils on a per capita basis; and
- if the Commission bases councils' expenditure requirements on estimates of the population they service and not the resident population as estimated by the Australian Bureau of Statistics.

Removing the per capita allocation to all councils of 30 per cent of the base grant would result in significantly different grant recommendations for several councils by making available a greater share of the base grant to be allocated according to relative need. It would lead to lower base grant recommendations for the more populous councils with low assessed relative need. For example, it would have reduced the recommended grants for 2023-24 by around $265 000 per year in the case of Devonport City Council and by almost $150 000 for Brighton Council.

By contrast, the recommended base grants for the smaller councils with high assessed relative need would be significantly increased, such as up by just over $160 000 for the Southern Midlands Council for 2023-24 and by just under $150 000 for West Coast Council.

Basing expenditure requirements on estimates of the service population rather than the resident population would have resulted in increased grant recommendations for 2023-24 for those councils with a proportionately large number of holiday properties. These include Glamorgan-Spring Bay (up by around $450 000), Central Highlands (up by just over $330 000) and Tasman (up by almost $290 000).

The councils with the largest decreases are those councils with larger populations with a relatively small share of dwellings that are estimated to be not occupied by residents. These include West Tamar (down by almost $195 000), Huon Valley (down by almost $185 000) and Latrobe (down by around $170 000).

This paper also reports on the impact on recommendations of implementing both new approaches. The largest increases in recommendations would be for Central Highlands (up by just over $470 000), Glamorgan-Spring Bay (up by almost $460 000), and Tasman (up by just over $360 000).

The councils with the largest decreases are those councils with larger populations, excluding the minimum grant councils, with a relatively small share of dwellings that are estimated to be

not occupied by residents. These include West Tamar (down by just over $325 000), Devonport (down by just over $270 000) and Huon Valley (down by around $250 000).

For both changes, the base grant recommendations for the five minimum grant councils, namely Hobart, Clarence, Kingborough, Glenorchy and Launceston, would not be affected.

The Commission is seeking feedback from councils on the proposed changes, which will be used to inform its decision making. Councils are encouraged to provide written responses by 15 December 2023.

Introduction

As part of the 2023 council hearings and visits, the Commission issued the following two Conversation Starters seeking comments on the issues raised:

- Conversation Starter CS2301 - Allocation of a share of the Base Grant on a per capita basis.

  The Commission sought feedback on whether the current approach of allocating 30 per cent of the base grant on a per capita basis to all councils remains appropriate. The Commission also sought feedback from councils on how any grant funds not allocated on a per capita basis should be distributed between councils.

- Conversation Starter CS2302 - Adjusting councils assessed expenditure requirements to allow for the service population being greater than the resident population.

  The Commission sought feedback on whether the Commission's current approach to assessing councils' expenditure requirements includes sufficient allowance for the costs councils incur in providing services to owners and occupiers of dwellings who may not be classed as residents with respect to that property or within the municipality, according to the Australian Bureau of Statistics.

The Commission has developed changes to its methodology to examine how the 2023-24 base grant recommendations would have been different from those provided to the Tasmanian Treasurer in early July 2023.

The Commission is considering adopting changes to its methodology for its recommendations from the 2024-25 financial year.

Removing the per capita allocation of a share of the base grant to all 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 ($47.19 million for Tasmania in 2023-24).

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 a council must receive in a year. However, it does not entitle all councils to a per capita share of 30 per cent of the base grant if those councils also receive some of the remaining 70 per cent of the base grant.

The current policy of the State Grant Commission is to determine its recommendations by allocating 30 per cent of the base grant to all councils on a per capita basis and allocate the remaining 70 per cent on an assessed 'relative need' basis.

Other commissions adopt a different approach in preparing their recommendations. Several commence by allocating the entire base grant on a relative need basis. 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. This approach has been adopted in this paper and is referred to as the direct assessment approach.

For Tasmania for 2023-24, the base grant allocations to the minimum grant councils accounted for around 15 per cent of the base grant. Up to 85 per cent of the base grant could have been allocated on a relative need basis. Currently, however, as a further 15 per cent is allocated on a per capita basis to the other councils, there remains 70 per cent only of the base grant to allocate based on need.

The current approach has the effect of setting the funds available for high need councils at a lower level than they could be. It also results in relatively high grant allocations to those councils with large populations and a relatively low level of need, such as the Burnie and Devonport City Councils.

Council feedback to Conversation Starter CS23-01 - Allocation of a share of the Base Grant on a per capita basis

In December 2022, the Commission issued a Conversation Starter on removing the per capita allocation of a share of the base grant for all councils.

The Commission received a limited number of written responses to the Conversation Starter. One council considered that the proposal to allocate more funding on a relative need basis has merit because it considered that the costs of providing services to a relatively small population dispersed across a large municipal area are significantly higher than for the councils with larger populations and greater population density.

The verbal feedback received during the 2023 hearings and visits was mixed. Some larger councils consider that they have their own cost pressures, such as those arising from greater socio-economic disadvantages or from being a regional centre. Several councils stated that they would not be opposed to the changes if it resulted in a fairer distribution of funding.

The financial impacts of the proposed changes could take several years before they are fully realised due to the Commission's caps and floors policy[1]. This was viewed as a mitigating factor by some councils which would receive lower grants than under the current approach.

Impact on the 2023-24 grant recommendations of the direct assessment approach

The Commission has examined how the base grant recommendations for 2023-24 would have been different if it had adopted the direct assessment approach for the most recent three years.

The level of grants to the five minimum grant councils, namely for Hobart, Clarence, Kingborough, Glenorchy and Launceston, would not be affected. Approximately $7 million of the base grant was allocated to these councils. Up to around $40.2 million would have been available to allocate according to relative need. However, this is subject to ensuring the minimum grant requirement was achieved for all councils. By contrast, just over $33 million only was available under the current approach.

Results

The impact on councils of adopting the direct assessment approach for allocating the minimum grant are presented in Table 1, which shows the difference in recommended grant allocations compared to the Commission's actual recommendations. These estimates do not allow for the impact of the Commission's caps and floors policy.

The base grant recommendations would have increased most for the low population councils with a relatively high level of assessed need. This includes Southern Midlands (up by $161 092), West Coast up by $148 867) and Flinders (up by $136 588).

[1] The Commission's caps and floors policy is intended to provide stability to councils for any fluctuations in their base grant allocations from year to year. Currently, the cap limits the size of any increases to +17 per cent while the floor limits any decreases to +7 per cent of the previous year's recommendations. These caps and floors have been revised in recent years due to the variable rate of inflation.

The councils with the largest decreases tended to be those with larger populations and a relatively low level of assessed need, including Devonport (down by $265 486), Brighton (down by $148 202) and Sorell (down by $132 293). For 13 councils, including the minimum grant councils, the difference in the grant recommendation would have been less than $60 000.

Additional comments

The results above arise when the per capita allocation of 30 per cent of the base grant to all councils is fully removed in one year. An alternative approach is to phase in the reduction of the share of the base grant allocated to all councils, such as to 20 per cent of the base grant in the first year, 10 per cent in the second year and fully remove the allocation in the third year. This would reduce the year-on-year changes in the base grant recommendations. The Commission's preferred approach if this change were adopted is to fully remove the per capita allocation to all councils in one year and rely on the caps and floors policy to phase in the impacts on grant recommendations.

These calculations have allowed for back casting, namely applying the changed methodology to previous years in determining the recommendations as the Commission uses three-year averages in determining its recommendations for any year. This is the Commission's preferred approach if this change were adopted. This is because for major changes, it is not considered appropriate to use three-year averages when different methodologies are applied for those years.

If back casting were not applied, there would be smaller changes in the recommendations in the first year and it would take three years for the full effects to be realised, subject to the impact of Commission's caps and floors policy.

In practice, even with back casting, it may take several years for the full effects to be realised due to the caps and floors policy.

Table 1: Direct Assessment Approach

	Commission Recommendations for 2023-24 under the Direct Assessment Approach and the Current Approach							
	Per Capita Grant Component ($)		Relative Needs Component ($)		Base Grant Recommendations ($, prior to caps and collars)			
	Direct Assessment Approach	Current Approach	Direct Assessment Approach	Current Approach	Direct Assessment Approach	Current Approach	Difference	
Break O'Day	0	173 698	1 657 059	1 397 295	1 657 059	1 570 993	86 066	Break O'Day
Brighton	0	487 607	1 572 196	1 232 791	1 572 196	1 720 398	- 148 202	Brighton
Burnie	0	507 670	1 944 406	1 552 110	1 944 406	2 059 780	- 115 374	Burnie
Central Coast	0	578 580	3 174 002	2 605 645	3 174 002	3 184 225	- 10 223	Central Coast
Central Highlands	0	64 025	1 269 109	1 090 029	1 269 109	1 154 054	115 055	Central Highlands
Circular Head	0	207 630	1 605 728	1 342 692	1 605 728	1 550 322	55 406	Circular Head
Clarence	1 563 802	1 563 802	0	0	1 563 802	1 563 802	0	Clarence
Derwent Valley	0	278 665	1 633 992	1 346 925	1 633 992	1 625 590	8 402	Derwent Valley
Devonport	0	667 993	1 660 397	1 257 890	1 660 397	1 925 883	- 265 486	Devonport
Dorset	0	173 921	1 704 517	1 438 682	1 704 517	1 612 603	91 914	Dorset
Flinders	0	23 059	1 208 775	1 049 128	1 208 775	1 072 187	136 588	Flinders
George Town	0	180 336	1 487 956	1 247 685	1 487 956	1 428 021	59 935	George Town
Glamorgan-Spring Bay	0	128 645	155 637	98 896	155 637	227 541	- 71 904	Glamorgan-Spring Bay
Glenorchy	1 265 223	1 265 223	0	0	1 265 223	1 265 223	0	Glenorchy
Hobart	1 388 073	1 388 073	0	0	1 388 073	1 388 073	0	Hobart
Huon Valley	0	476 066	2 263 900	1 840 261	2 263 900	2 316 327	- 52 427	Huon Valley
Kentish	0	168 596	1 825 838	1 546 179	1 825 838	1 714 775	111 063	Kentish
King Island	0	41 536	998 240	859 923	998 240	901 459	96 781	King Island
Kingborough	1 014 968	1 014 968	0	0	1 014 968	1 014 968	0	Kingborough
Latrobe	0	320 151	1 304 629	1 047 308	1 304 629	1 367 459	- 62 830	Latrobe
Launceston	1 782 800	1 782 800	0	0	1 782 800	1 782 800	0	Launceston
Meander Valley	0	529 267	2 578 366	2 099 604	2 578 366	2 628 871	- 50 505	Meander Valley
Northern Midlands	0	350 294	1 365 648	1 091 924	1 365 648	1 442 218	- 76 570	Northern Midlands
Sorell	0	431 706	1 383 411	1 083 998	1 383 411	1 515 704	- 132 293	Sorell
Southern Midlands	0	170 676	2 232 764	1 900 996	2 232 764	2 071 672	161 092	Southern Midlands
Tasman	0	66 155	681 678	576 342	681 678	642 497	39 181	Tasman
Waratah-Wynyard	0	363 966	2 078 958	1 711 006	2 078 958	2 074 972	3 986	Waratah-Wynyard
West Coast	0	107 939	1 783 265	1 526 459	1 783 265	1 634 398	148 867	West Coast
West Tamar	0	642 853	2 600 992	2 086 662	2 600 992	2 729 515	- 128 523	West Tamar
State Total	**7 014 865**	**14 155 900**	**40 171 464**	**33 030 430**	**47 186 330**	**47 186 330**		

Ranking - Highest to lowest ($)	
161 092	Southern Midlands
148 867	West Coast
136 588	Flinders
115 055	Central Highlands
111 063	Kentish
96 781	King Island
91 914	Dorset
86 066	Break O'Day
59 935	George Town
55 406	Circular Head
39 181	Tasman
8 402	Derwent Valley
3 986	Waratah-Wynyard
0	Glenorchy
0	Launceston
0	Hobart
0	Kingborough
0	Clarence
- 10 223	Central Coast
- 50 505	Meander Valley
- 52 427	Huon Valley
- 62 830	Latrobe
- 71 904	Glamorgan-Spring Bay
- 76 570	Northern Midlands
- 115 374	Burnie
- 128 523	West Tamar
- 132 293	Sorell
- 148 202	Brighton
- 265 486	Devonport

Setting councils' expenditure requirements based on the Commission's estimate of the service population

Background

The Commission bases its estimates of councils' total expenditure requirements on the number of residents in each municipality, as estimated by the Australian Bureau of Statistics (ABS).

To estimate each council's expenditure requirement for a particular service, the Commission starts by summing the total of that expenditure type by all councils. An average per capita cost for providing each service is then calculated using the most recent ABS estimate of the State's population.

The Commission then multiplies the average per capita expenditure rate by the number of residents in each municipality, based on the most recent ABS estimate of the resident population. Commissions in other jurisdictions use a similar approach for determining the average per capita cost per resident.

The Commission then applies a set of cost adjustors designed to reflect the cost advantages or disadvantages of each council.

Allowing for councils' additional expenditure requirements relating to properties not owned and occupied by residents within the municipality

In some municipalities, such as Central Highlands, Tasman and Glamorgan-Spring Bay, the number of dwellings is very large, relative to the resident population. These municipalities are popular locations for holiday homes. The owners of some of these properties may live in these properties for less than half of the year - and therefore not be classed as residents - and they may make the property available to family and friends, or on a commercial basis such as for short stay accommodation.

The relevant council may face similar costs, such as for waste management, planning and community amenities, law, order and public safety and general administration, regardless of whether dwellings are occupied by residents or by other persons.

For example, the administration costs associated with issuing rates notices and managing rates revenue are the same for rates collected from residents as from owners of holiday homes who reside outside the municipality, or who reside in another property in that municipality. Also, if a holiday home is occupied for part of most weeks, the council will likely be incurring the cost of collecting waste from that dwelling for most weeks.

In addition, property owners who reside elsewhere seek approval for alterations to the properties, such as an extension or constructing a deck. The owners must apply to the relevant council, which requires the resources to assess these applications.

It has been pointed out that the Commission's current approach to assessing the budget position of councils includes revenue that councils receive from property, but does not allow for any council expenditure in providing services to the owners and/or occupiers of these properties.

The Commission currently applies an Absentee Population cost adjustor, which is intended to allow for the additional costs that councils incur in providing some services to non-residents in their municipality. The cost categories are: general administration; planning and community amenities; waste management and the environment; and recreation and culture.

The Commission had decided, in establishing the Absentee Population cost adjustor, that the number of dwellings unoccupied on census night provides a reasonable indicator of the additional costs some councils face.

However, the cost adjustor values have not had a significant impact on the assessed expenditure requirements for relevant councils, and therefore on the base grant recommendations. The Commission is not satisfied that the cost adjustor approach necessarily captures the additional costs that councils incur in providing services to non-residents who own and occupy dwellings in their municipality.

This is because the starting level of the expenditure requirement for each council is based on the size of the resident population. This tends to be the most significant factor. The cost adjustors tend to have fairly limited impacts, partly because the base grant of the minimum grant councils cannot decline.

The Commission has examined whether, for councils in Tasmania and Victoria, their expenditure in the main categories in recent years has been more closely linked to the number of dwellings than the ABS estimates of resident population.

Based on regression analysis, it was found that the number of dwellings has been a better predictor of expenditure than the size of the resident population. In particular, for those councils where, on census night, a large number of dwellings were unoccupied, their expenditure tended to be linked more closely to the total number of dwellings than to the size of the resident population.

The Commission is therefore examining whether basing councils' expenditure requirements on the service population, which includes those who own and occupy dwellings but are not residents with respect to that property, provides more accurate estimates than under the current approach.

Council feedback to Conversation Starter CS23-02 - Adjusting councils assessed expenditure requirements to allow for the service population being greater than the resident population

In February 2023, the Commission issued a Conversation Starter on adjusting councils assessed expenditure requirements to allow for the service population being greater than the resident population.

The Commission received a limited number of written responses to the Conversation Starter. One council considers that several of its cost categories are more closely correlated to the number of rateable properties than the resident population (e.g. waste contracts and rates

collections). It also considers that its infrastructure must meet the demands at peak periods, which includes demand from residents and visitors, and that this also impacts on their maintenance costs. Another council raised concerns over the cost pressures associated with high numbers of itinerate workers.

The verbal feedback received during the 2023 hearings and visits was that council expenditure is likely to be more closely linked to the number of rateable properties than the resident population. On this basis, there was support for further investigation of the use of a service-based population to estimate expenditure requirements.

Estimating council expenditure requirements based on the service population

The Commission has since examined how the 2023-24 base grant recommendations would have been different if it had based its council expenditure estimates on a measure of the service population instead of the resident population. Under this scenario, the current policy regarding the allocation of the 30 per cent of the base grant on a per capita basis is maintained.

For each municipality, the service population has been calculated by adding a population loading for persons who are not residents in the dwelling they occupy.

The key data are, for each municipality, the number of dwellings, the average number of residents in each dwelling and the resident population, all as estimated by the ABS. If the number of dwellings is greater than would be needed to accommodate the resident population, these additional dwellings are taken to be occupied by non-residents. The service population is estimated by including residents and non-residents.

The Absentee Population Cost Adjustor has been removed as its effect is being captured through the service population.

The non-resident population may occupy the relevant dwelling for part of the year only. They may not demand services at the same level as residents and may not require some services. For this paper, it is assumed that, for all the core expenditure categories, the costs of providing services to non-residents are one half of the costs of providing these services to residents. The Commission is interested to hear from councils whether this assumption is reasonable for some, or all, of the eight expenditure categories used by the Commission[2].

Further details on how the service population has been calculated and the impacts on estimated expenditure requirements are provided in the Appendix.

Results

The impact on councils of adopting the service population model are presented in Table 2 below.

The base grant recommendations would have increased most for those councils with a proportionately large number of holiday properties. These include Glamorgan-Spring Bay (up by $454 419), Central Highlands (up by $332 500) and Tasman (up by $289 617).

[2] The eight expenditure categories include: general administration; health, housing and welfare; law, order and public safety; planning and community amenities; recreation and culture; roads; waste management and the environment; and other.

The councils with the largest decreases are those councils with larger populations, excluding the minimum grant councils, with a relatively small share of dwellings that are estimated to be not occupied by residents. These include West Tamar (down by $192 895), Huon Valley (down by $182 727) and Latrobe (down by $170 674).

The five councils currently assessed as minimum grant councils remain classed as minimum grant councils. The grant recommendations for these councils are therefore unchanged.

Again, these calculations have allowed for back casting, which is the Commission's preferred approach. If back casting had not been applied, there would be smaller changes in the recommendations in the first year and it would take three years for the full effects of basing costs on the estimated service population to be realised, subject to the impact of Commission's caps and floors policy.

As in the earlier discussion, even with back casting, it may take several years for the full effects to be realised due to the caps and floors policy.

Table 2: Service Population Approach

Commission Recommendations for 2023-24 under the Service Population Approach and the Current (Resident Population) Approach

	Per Capita Grant Component ($)	Relative Needs Component ($)		Base Grant Recommendations ($, prior to caps and collars)			
	Current Approach	Service Population Approach	Current Approach	Service Population Approach	Current Approach	Difference	
Break O'Day	173 698	1 495 878	1 397 295	1 669 576	1 570 993	98 583	Break O'Day
Brighton	487 607	1 159 036	1 232 791	1 646 643	1 720 398	- 73 755	Brighton
Burnie	507 670	1 491 269	1 552 110	1 998 939	2 059 780	- 60 841	Burnie
Central Coast	578 580	2 495 071	2 605 645	3 073 651	3 184 225	- 110 574	Central Coast
Central Highlands	64 025	1 422 529	1 090 029	1 486 554	1 154 054	332 500	Central Highlands
Circular Head	207 630	1 326 719	1 342 692	1 534 349	1 550 322	- 15 973	Circular Head
Clarence	1 563 802	0	0	1 563 802	1 563 802	0	Clarence
Derwent Valley	278 665	1 322 545	1 346 925	1 601 210	1 625 590	- 24 380	Derwent Valley
Devonport	667 993	1 212 505	1 257 890	1 880 498	1 925 883	- 45 385	Devonport
Dorset	173 921	1 436 185	1 438 682	1 610 106	1 612 603	- 2 497	Dorset
Flinders	23 059	1 096 220	1 049 128	1 119 279	1 072 187	47 092	Flinders
George Town	180 336	1 193 419	1 247 685	1 373 755	1 428 021	- 54 266	George Town
Glamorgan-Spring Bay	128 645	553 315	98 896	681 960	227 541	454 419	Glamorgan-Spring Bay
Glenorchy	1 265 223	0	0	1 265 223	1 265 223	0	Glenorchy
Hobart	1 388 073	0	0	1 388 073	1 388 073	0	Hobart
Huon Valley	476 066	1 657 534	1 840 261	2 133 600	2 316 327	- 182 727	Huon Valley
Kentish	168 596	1 468 278	1 546 179	1 636 874	1 714 775	- 77 901	Kentish
King Island	41 536	846 583	859 923	888 119	901 459	- 13 340	King Island
Kingborough	1 014 968	0	0	1 014 968	1 014 968	0	Kingborough
Latrobe	320 151	876 634	1 047 308	1 196 785	1 367 459	- 170 674	Latrobe
Launceston	1 782 800	0	0	1 782 800	1 782 800	0	Launceston
Meander Valley	529 267	2 028 965	2 099 604	2 558 232	2 628 871	- 70 639	Meander Valley
Northern Midlands	350 294	1 009 867	1 091 924	1 360 161	1 442 218	- 82 057	Northern Midlands
Sorell	431 706	968 881	1 083 998	1 400 587	1 515 704	- 115 117	Sorell
Southern Midlands	170 676	1 845 823	1 900 996	2 016 499	2 071 672	- 55 173	Southern Midlands
Tasman	66 155	865 959	576 342	932 114	642 497	289 617	Tasman
Waratah-Wynyard	363 966	1 660 669	1 711 006	2 024 635	2 074 972	- 50 337	Waratah-Wynyard
West Coast	107 939	1 702 779	1 526 459	1 810 718	1 634 398	176 320	West Coast
West Tamar	642 853	1 893 767	2 086 662	2 536 620	2 729 515	- 192 895	West Tamar
State Total	**14 155 900**	**33 030 430**	**33 030 430**	**47 186 330**	**47 186 330**		

Ranking - Highest to lowest ($)	
454 419	Glamorgan-Spring Bay
332 500	Central Highlands
289 617	Tasman
176 320	West Coast
98 583	Break O'Day
47 092	Flinders
0	Clarence
0	Glenorchy
0	Hobart
0	Kingborough
0	Launceston
- 2 497	Dorset
- 13 340	King Island
- 15 973	Circular Head
- 24 380	Derwent Valley
- 45 385	Devonport
- 50 337	Waratah-Wynyard
- 54 266	George Town
- 55 173	Southern Midlands
- 60 841	Burnie
- 70 639	Meander Valley
- 73 755	Brighton
- 77 901	Kentish
- 82 057	Northern Midlands
- 110 574	Central Coast
- 115 117	Sorell
- 170 674	Latrobe
- 182 727	Huon Valley
- 192 895	West Tamar

Applying both methodology changes

The Commission has examined the impact on the 2023-24 recommendations of applying both changes to its methodology for determining its base grant recommendations.

The combined effect of these changes is to amplify the impacts of basing councils' expenditure requirements on estimates of the service population as an additional $7.1 million in funding becomes available under the direct assessment approach to distribute to councils with the greater relative need.

Again, the base grant recommendations would have increased most for those councils with a proportionately large number of holiday properties. These include Central Highlands (up by $472 046) Glamorgan-Spring Bay (up by $458 816), and Tasman (up by $362 207).

The councils with the largest decreases are those councils with larger populations, excluding the minimum grant councils, with a relatively small share of dwellings that are estimated to be not occupied by residents. These include West Tamar (down by $325 695), Devonport (down by $271 386) and Huon Valley (down by $250 019).

The base grant recommendations for the councils of Hobart, Clarence, Kingborough, Glenorchy and Launceston, would not be affected.

The results for all councils are presented in Table 3 below.

Again, it would take several years for the full effects to be realised due to the caps and floors policy.

Table 3: Direct Assessment and Service Population Approach

Commission Recommendations for 2023-24 under the combined Direct Assessment (DA) /Service Population (SA) Approaches and the Current Approach

	Per Capita Grant Component ($)		Relative Needs Component ($)		Base Grant Recommendations ($, prior to caps and collars)				
	DA and SP Approaches	Current Approach	DA and SP Approaches	Current Approach	DA and SP Approaches	Current Approach	Difference		Ranking - Highest to lowest ($)
Break O'Day	0	173 698	1 755 797	1 397 295	1 755 797	1 570 993	184 804	Break O'Day	472 046 Central Highlands
Brighton	0	487 607	1 507 810	1 232 791	1 507 810	1 720 398	- 212 588	Brighton	458 816 Glamorgan-Spring Bay
Burnie	0	507 670	1 896 241	1 552 110	1 896 241	2 059 780	- 163 539	Burnie	362 207 Tasman
Central Coast	0	578 580	3 048 677	2 605 645	3 048 677	3 184 225	- 135 548	Central Coast	323 799 West Coast
Central Highlands	0	64 025	1 626 100	1 090 029	1 626 100	1 154 054	472 046	Central Highlands	184 804 Break O'Day
Circular Head	0	207 630	1 580 579	1 342 692	1 580 579	1 550 322	30 257	Circular Head	166 778 Flinders
Clarence	1 563 802	1 563 802	0	0	1 563 802	1 563 802	0	Clarence	75 411 Dorset
Derwent Valley	0	278 665	1 602 854	1 346 925	1 602 854	1 625 590	- 22 736	Derwent Valley	69 450 Southern Midlands
Devonport	0	667 993	1 654 497	1 257 890	1 654 497	1 925 883	- 271 386	Devonport	64 822 King Island
Dorset	0	173 921	1 688 014	1 438 682	1 688 014	1 612 603	75 411	Dorset	30 257 Circular Head
Flinders	0	23 059	1 238 965	1 049 128	1 238 965	1 072 187	166 778	Flinders	2 688 Kentish
George Town	0	180 336	1 417 995	1 247 685	1 417 995	1 428 021	- 10 026	George Town	0 Glenorchy
Glamorgan-Spring Bay	0	128 645	686 357	98 896	686 357	227 541	458 816	Glamorgan-Spring Bay	0 Launceston
Glenorchy	1 265 223	1 265 223	0	0	1 265 223	1 265 223	0	Glenorchy	0 Hobart
Hobart	1 388 073	1 388 073	0	0	1 388 073	1 388 073	0	Hobart	0 Kingborough
Huon Valley	0	476 066	2 066 308	1 840 261	2 066 308	2 316 327	- 250 019	Huon Valley	0 Clarence
Kentish	0	168 596	1 717 463	1 546 179	1 717 463	1 714 775	2 688	Kentish	- 10 026 George Town
King Island	0	41 536	966 281	859 923	966 281	901 459	64 822	King Island	- 22 736 Derwent Valley
Kingborough	1 014 968	1 014 968	0	0	1 014 968	1 014 968	0	Kingborough	- 53 387 Waratah-Wynyard
Latrobe	0	320 151	1 120 875	1 047 308	1 120 875	1 367 459	- 246 584	Latrobe	- 124 220 Meander Valley
Launceston	1 782 800	1 782 800	0	0	1 782 800	1 782 800	0	Launceston	- 135 548 Central Coast
Meander Valley	0	529 267	2 504 651	2 099 604	2 504 651	2 628 871	- 124 220	Meander Valley	- 154 467 Northern Midlands
Northern Midlands	0	350 294	1 287 751	1 091 924	1 287 751	1 442 218	- 154 467	Northern Midlands	- 163 539 Burnie
Sorell	0	431 706	1 274 821	1 083 998	1 274 821	1 515 704	- 240 883	Sorell	- 212 588 Brighton
Southern Midlands	0	170 676	2 141 122	1 900 996	2 141 122	2 071 672	69 450	Southern Midlands	- 240 883 Sorell
Tasman	0	66 155	1 004 704	576 342	1 004 704	642 497	362 207	Tasman	- 246 584 Latrobe
Waratah-Wynyard	0	363 966	2 021 585	1 711 006	2 021 585	2 074 972	- 53 387	Waratah-Wynyard	- 250 019 Huon Valley
West Coast	0	107 939	1 958 197	1 526 459	1 958 197	1 634 398	323 799	West Coast	- 271 386 Devonport
West Tamar	0	642 853	2 403 820	2 086 662	2 403 820	2 729 515	- 325 695	West Tamar	- 325 695 West Tamar
State Total	**7 014 865**	**14 155 900**	**40 171 464**	**33 030 430**	**47 186 330**	**47 186 330**			

Preliminary Decision

In reaching a preliminary decision the Commission is guided by the horizontal equalisation National Principle, which is considered to be the most important or primary principle, as set out below.

Horizontal Fiscal Equalisation

General-purpose grants will be allocated to local government bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act [the Commonwealth's *Local Government (Financial Assistance) Act 1995*]. This ensures that, each local governing body in the State or Territory is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State or Territory. It takes account of differences in the expenditure required by those local government bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.

The Commission considers that the current approach regarding the allocation of 30 per cent of the minimum grant to all councils effectively ensures some more populous councils receive some grant revenue solely by virtue of their population size, and not to satisfy the horizontal fiscal equalisation principle. The proposed alternative approach enables almost 15 per cent more of the base grant to be allocated according to relative need, namely to better satisfy this principle.

The Commission also considers that the current approach of not including, in councils' expenditure requirements, those costs councils incur in providing services to non-residents does not result in reasonable expenditure estimates for some councils. It therefore does not fully meet the requirements of the horizontal fiscal equalisation principle.

The Commission's preliminary decision is to apply both changes, as described above, in preparing base grant recommendations.

In summary, the Commission intends to update its methodology for preparing base grant recommendations by:

- **introducing the direct assessment approach for the allocation of the per capita minimum grant; and**
- **calculating councils' expenditure requirements based on estimates of the service population.**

The Commission seeks councils' views on the proposed changes and their reasons to support those views. Specifically, the Commission would appreciate written response to the following questions:

Questions to councils

1. Does your council consider that the direct assessment approach is equitable and better satisfies the relevant national principles?
2. Does your council consider that the direct assessment approach, if adopted, should be implemented in full in one year, or phased in over two or three years?
3. Does your council consider that basing expenditure requirements on estimates of the service population is reasonable and better satisfies the relevant national principles?
4. Does your council have any comments on the Commission's proposed approach to estimating the service population?
5. Does your council agree with the Commission's proposed approach of setting the costs of providing services to non-residents at one half of the costs of providing services to residents, for all expenditure categories? If not, what alternative approach would you suggest?
6. What are your council's views on the Commission's Preliminary Decision?
7. Does your council have any other comments, including in relation to any matters that your council considers have not been adequately covered?

Submissions due date

The Commission is seeking written response to the questions by **15 December 2023**, which can be sent to the Commission via email at SGC@treasury.tas.gov.au

The Commission will make a final decision following feedback from councils.

Appendix: Calculation of the Service Population and expenditure requirements

To estimate the service population ABS data are needed on the estimated residential population (ERP) for each municipality, which is provided annually by the ABS.

Data are also needed on the number of dwellings and the average number of persons usually resident in a private dwelling. The average number of persons per dwelling for Tasmania is also required. These estimates are only provided once every five years, following the census.

If the number of dwellings is greater than would be needed to accommodate the resident population, based on the average household size, these additional dwellings are taken to be occupied by non-residents. The service population is estimated by including residents and non-residents. For the dwellings not occupied by residents, it is assumed that the number of persons occupying the property is the State average (most recently 2.4 persons).

This is best explained by stylised examples.

Example 1

An urban municipality (A) has 50 000 residents, an average of 2.5 persons per dwelling and 20 000 dwellings. All dwellings are taken to be occupied by residents. The service population is therefore estimated to be 50 000, equal to the resident population.

Example 2

An east coast municipality (B) has 5 000 residents, an average of 2.5 persons per dwelling and 3 500 dwellings. The number of dwellings taken to be occupied by residents is 2 000. The remaining 1 500 dwellings are taken to be occupied by non-residents.

As the State-wide average number of persons per dwelling is 2.4, the number of non-residents is estimated at 3 600. The service population is calculated to be 8 600.

For the intercensal years, ERP data are available, but data are not available on the number of dwellings or the average number of persons per dwelling.

To allow for this, for years after census year, the Commission would use the most recent population data and adjust the number of dwellings in each municipality annually based on the change in the population. The Commission would also use the most recent data on the average number of persons per dwelling, per municipality and state-wide, until they are updated after the following census.

In some cases, such as Clarence City Council in the example in this paper, the number of dwellings can be less than would be expected to accommodate the resident population. This may be due to a significant number of persons in aged care facilities, which tend to be located in large urban councils. In these cases, the number of dwellings not occupied by residents is

assumed to be zero and service population is taken to be equal to the resident population. As Clarence City Council and the larger urban councils, are minimum grant councils, this has no impact on the base grant recommendations for these councils, and a negligible impact on the recommendations for other councils.

To estimate each council's expenditure requirements, the calculations have assumed that, for all the cost categories, the costs of providing services to non-residents are one half of the costs provided to residents. The expenditure requirements are then calculated based on these two different average costs, for all cost categories.

This is best explained by expanding on Examples 1 and 2 above.

Suppose the only two councils in Tasmania are A and B, and these are as described in Examples 1 and 2. If the total annual cost of general administration for councils A and B is reported to be $11 million, under the Commission's current approach, with a state-wide resident population of 55 000, the average cost is $200 per resident, which would be allocated as $10 million for Council A and $1 million for Council B.

Under the alternative approach, the cost of $11 million would be allocated among a state-wide service population of 58 600, or 55 000 residents and 3 600 non-residents. As more persons are assessed as receiving services, the service costs per person are lower, at around $194 per resident and $97 for non-residents. The total reported cost of $11 million would now be allocated as around $9.7 million for Council A and $1.3 million for Council B[3].

[3] The cost of general administration per resident (A) is calculated from: (55 000*A) + (3 600*A/2) = $11 million.

Appendix 1 - Service Population Data Sheet

Reference	A	B	C	D	E	F	G	H
	ABS Estimated Resident Population (ERP)	All private dwellings	Average number of people per household	Estimate of dwellings occupied by residents (A / C)	Dwellings not occupied by residents (B - D)	Average number of people per household - State average	Non resident service population - (E x F)	Total service population (A + G)
	30/06/2021	ABS 2021 Census	ABS 2021 Census	Calculation	Calculation	ABS 2021 Census	Calculation	Calculation
Break O'Day	6 936	4 829	2.0	3 468	1 361	2.4	3 266	10 202
Brighton	19 263	7 532	2.6	7 409	123	2.4	296	19 559
Burnie	20 441	9 236	2.3	8 887	349	2.4	837	21 278
Central Coast	23 278	10 404	2.3	10 121	283	2.4	680	23 958
Central Highlands	2 580	2 738	2.1	1 229	1 509	2.4	3 623	6 203
Circular Head	8 335	4 037	2.4	3 473	564	2.4	1 354	9 689
Clarence	62 396	25 855	2.4	25 998	0	2.4	0	62 396
Derwent Valley	11 114	4 729	2.5	4 446	283	2.4	680	11 794
Devonport	26 922	12 047	2.3	11 705	342	2.4	820	27 742
Dorset	6 991	3 935	2.2	3 178	757	2.4	1 817	8 808
Flinders	938	683	2.0	469	214	2.4	514	1 452
George Town	7 213	3 674	2.2	3 279	395	2.4	949	8 162
Glamorgan-Spring Bay	5 118	4 722	2.1	2 437	2 285	2.4	5 484	10 602
Glenorchy	51 233	21 856	2.4	21 347	509	2.4	1 221	52 454
Hobart	56 084	24 748	2.3	24 384	364	2.4	873	56 957
Huon Valley	18 809	8 740	2.4	7 837	903	2.4	2 167	20 976
Kentish	6 778	2 893	2.4	2 824	69	2.4	165	6 943
King Island	1 654	888	2.1	788	100	2.4	241	1 895
Kingborough	40 815	17 277	2.5	16 326	951	2.4	2 282	43 097
Latrobe	12 705	5 798	2.3	5 524	274	2.4	658	13 363
Launceston	71 906	31 274	2.3	31 263	11	2.4	25	71 931
Meander Valley	21 153	9 259	2.4	8 814	445	2.4	1 069	22 222
Northern Midlands	14 030	6 424	2.3	6 100	324	2.4	778	14 808
Sorell	16 975	8 129	2.4	7 073	1 056	2.4	2 535	19 510
Southern Midlands	6 838	2 976	2.5	2 735	241	2.4	578	7 416
Tasman	2 643	2 635	2.0	1 322	1 314	2.4	3 152	5 795
Waratah-Wynyard	14 641	6 895	2.3	6 366	529	2.4	1 270	15 911
West Coast	4 373	3 105	2.0	2 187	919	2.4	2 204	6 577
West Tamar	25 747	11 292	2.4	10 728	564	2.4	1 354	27 101
State Total	**567 909**						**40 891**	**608 800**

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