

Fact Sheet FS-001: The National Financial Assistance Grant (FA Grant) Funding Pool and Australian Government's calculation of Tasmania's allocation: Indexation

The State Grants Commission issues Fact Sheets as general purpose educational tools aimed at assisting stakeholders understand, in general terms, concepts associated with the administration of the Australian Government's Local Government Financial Assistance Grant program in Tasmania.

The State Grants Commission (the Commission) is responsible for making recommendations to the Tasmanian Treasurer on the allocation of funding provided by the Australian Government for Tasmanian councils. The level of funding for Tasmania (and all other states and territories) and timing of the funding is determined by the Australian Government. The following provides information on how the Australian Government determines the total level of funding, and the timing of payment of that funding.

How is the size of the National FA Grant pool determined?

Each year the Australian Government estimates each state and territory's share of the total FA Grant funding pool. The FA Grant funding pool (which is made up of the General Purpose/Base Grant pool and the Identified Local Government Roads/Road Grant pool) is normally indexed annually by a combined factor of population growth and a CPI growth¹ as follows:

Indexation Factor = (Population of Australia/previous Population of Australia) x (CPI/previous CPI)

For the 2022-23 Funding Pool, the relevant components are:

- the size of the 2021-22 funding;
- the Estimated Residential Population as at 31 December 2021 and 31 December 2022 for states and territories (Australian Bureau of Statistics: *National, state and territory population*); and
- the national Consumer Price Index (CPI) in respect of the March 2022 quarter (ABS Catalogue 6401.0) and the estimate of CPI for the March 2023 quarter included in the 2022-23 Australian Government Budget.

What is the Prior Year Adjustment?

Each year the Australian Government finalises each annual entitlement for the prior year once the final population for states and territories and CPI data are known. This recalculation of entitlements results in the adjustment that is made to the prior year's entitlements and is included in the allocations for the following year.

For 2021-22, the relevant components are:

- the size of the 2020-21 funding;
- the Estimated Resident Population as at 31 December 2020 and 31 December 2021 for states and territories; and

¹The Australian Government froze the indexation of the National FA Grant funding pool from 1 July 2014 to 30 June 2017.

FS-001: The National Financial Assistance Grant (FA Grant) Funding Pool and Australian Government's calculation of Tasmania's allocation: Indexation

- national CPI for the March 2021 quarter and March 2022 quarter.

Who decides if and when there is an Advance Payment?

The Australian Government determines if and when an advance payment of the forthcoming year's FA Grants occurs in any year. This can be up to 75 per cent of the estimated payment, as in late 2021–22. The Australian Government also decides the distribution of any advance payments amongst councils. Typically, the Australian Government uses the most recent year's approved FA Grant allocation proportions as the basis for determining how it will distribute the advance payment. The advance payment is provided to the Tasmanian Government and is immediately allocated to councils.

Sometimes the Australian Government Budget states whether an advance payment of the forthcoming year's FA Grant funding will occur during the current financial year. Even if there is no inclusion of this in the Federal Budget, the Australian Government may still choose to make an Advance Payment before the end of a financial year. Sometimes this occurs with very little advance notice.

Do Advance Payments affect the size of the finding pool?

Yes – Advance payments affect the amount of indexation as it affects the base on which indexation applies. A demonstration on how advance payments impacted the indexation in determining the 2022–23 entitlements is detailed in the Determination Instrument available at <https://www.legislation.gov.au/Details/F2022L00835>

What is Tasmania's share of each of the National funding pools?

Base Grant funding pool: Tasmania receives a share of this funding pool based on Tasmania's population share of the national population, which is currently at 2.2 per cent. Accordingly, Tasmania's share of the national Base Grant funding pool changes marginally each year.

Road Grant funding pool: Tasmania receives 5.3 per cent of the national Road Grant finding pool based on fixed historical shares from the Federal Budget.

Further Information

The information provided above is general in nature and reflects the Commission's current methodology. For further explanation of the Commission's methodology or feedback on this Fact Sheet, please contact the Commission at sgc@treasury.tas.gov.au.