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Review Context

The State Grants Commission (the Commission) is an independent statutory body established under the *State Grants Commission Act 1976* and is responsible for recommending the distribution of Australian Government and State Government funds to Tasmanian local government authorities. To ensure that the distribution of available funds is as equitable and contemporary as possible, the Commission continually monitors council practices and updates assessment methods and data where appropriate.

To date, in order to provide some structure to updating the distribution methods of the Australian Government Financial Assistance Grants (FA Grants), the Commission has operated a triennial review policy whereby major method changes have been introduced only every three years, with data updates and minor changes applied every year. As currently stands, the Triennium applies as follows:

### Overview of existing Triennial Review Period (FA Grants)

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<tr>
<th>Distribution Action</th>
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<tr>
<td>2018-19 Method Changes + Data Updates</td>
<td>2019-20 Data Updates</td>
<td>2020-21 Data Updates</td>
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<td>2021-22 Method Changes + Data Updates</td>
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The Commission is currently considering moving away from its current “Triennium” approach for adopting methodology changes. Instead, the Commission is considering implementing changes as they are determined, rather than at the conclusion of a Triennium. This approach is being considered as a strategy to enable the prioritisation and resourcing of reviews to be conducted appropriately, rather than being constrained to achieving outcomes within a given triennium cycle.
While the triennium cycle is proposed to cease, the Commission will continue to provide a degree of certainty to councils by ensuring that fluctuations in grant outcomes continue to be moderated by the Commission’s use of averaging and the application of caps and collars in the Base Grant Model.

In addition to the Commission’s processes for conducting its reviews, the Commission seeks to adopt and apply good governance practices as a framework for its internal operational processes.

The Commission has recently adopted a more strategic view to its processes and work planning. This work has resulted in the Commission proposing to replace its Triennium Work Plan processes and publications, and adopting a longer term more strategic perspective to its reviews.

This has resulted in the Commission preparing its own Strategic and Operational Planning Framework, which is explained in this Information Paper. The Commission’s priority of its work program and projects are now being considered within this framework.

The Commission welcomes any feedback from councils on its Strategic and Operational Planning Framework and the proposal to cease adopting a triennium approach to adopting methodology changes into its FA Grant models.
Introduction

The State Grants Commission (the Commission) relies on a number of factors in ensuring the integrity and meaningfulness of its deliberations and its decisions, which ultimately result in the annual allocation of the Financial Assistance Grant (FA Grant) funding to Tasmanian Councils. These factors include, but are not limited to:

- The accuracy and consistency of the data input utilised;
- The Excel based mathematical “FA model” which takes the various data inputs and produces the allocation results, based on the parameters determined by the Commission;
- The conversion of the Commission’s decisions in the FA model into results which have the desired impact; and
- The ability to analyse the outputs (allocations) of the FA model to ensure reasonableness and explainability.

The current FA model was developed over a decade ago and since that time, various decisions made by the Commission have altered the “workings and calculations” within the FA model. Annually, of course, the Commission does have controls in place, such as a formal quality assurance process undertaken by an independent person, to review and check the mathematical integrity of the FA model.

In addition, there is a review of the outputs (that is, the allocations) to ensure “reasonableness” given the changes and new data incorporated into the calculations. This includes a review of all the decisions relating to the factors and data which result in the calculation of the FA Grant allocations annually.

If changes to methodology are deemed necessary, these are made following a consultation process with councils and the Commission decisions on implementation closely checked.

The Commission has determined that it is timely to review its strategic priorities and, in turn, any operational changes which may be required to provide a “future-proofed” FA model process for the Commission.

The above comments do not reflect a level of distrust by the Commission in the calculations and processes of the current FA model. Rather, the Commission regards it as prudent to ensure
that the FA model remains accurate and reliable. It is also incumbent on the Commission that the FA model is able to:

- adapt to changes in the nature of local government in Tasmania;
- adapt to changing data availability; and
- has capacity to adapt to accommodate likely methodological changes by the Commission in the future.

Ensuring the FA Model is able to handle the above requirements effectively will provide all its stakeholders with full confidence that the allocations determined annually are in accordance with all relevant legislation, National and State principles and, primarily, the achievement of allocations which truly reflect the principle of Horizontal Fiscal Equalisation (HFE).
Risks

The Commission recognises that councils are the primary stakeholder and beneficiaries from the Commission’s work.

The Commission is aware that its integrity, and therefore the confidence of councils and its other stakeholders in its activities and determinations, is dependent on the following risk areas:

1) Data integrity;
2) Model outcomes integrity;
3) Communication and education;
4) Its principles and practices;
5) Achievement of its longer term outcomes;
6) Management of expectations and the constraints on its activities;
7) Management of its projects; and
8) Integration of work plans and resourcing.

The Commission has therefore considered its priorities in terms of activities and resource utilisation over the coming years (in some detail) and into the future.

The Commission’s priorities are comprised of two major components:

1. Ongoing confidence and integrity in its methodologies and FA model; and
2. Ensuring that its methodologies are reviewed and changed as considered necessary to reflect both the meeting of the National and State principles, and the changing nature, structures and activities of local government in Tasmania.

The FA model review task is consistent with the Commission's strategic planning.

The following is a diagrammatic format of the Strategic Plan for the Commission for the next decade.
State Grants Commission Strategic Plan 2019 - 2029

Mission

The SGC is highly respected by local government and other stakeholders

Strategic Areas

A. Strong relationships with stakeholders
B. Improved understanding of the Commission’s responsibilities
C. Improved and ongoing relationship with Treasury
D. Effective governance and administration

Desired Outcomes

Improved and broader communication, particularly with councils
Improved input data integrity
Regular updates to Treasury on Commission activities
Legislative requirements are all achieved

Increasing cooperation with LGD and LGAT
Reasoned longer term work plans
Annual resourcing submissions to Treasury
Regular reviews of Commission operations

Reasoned and informed decision making
Improved understanding by councils of reasons for changes to allocations
Ongoing IT and administrative support from Treasury
Grant recommendations consistent with National Principles

Performance Targets

1. Increased opportunities for communications with councils
2. Positive support from LGD and LGAT
3. Ongoing review of activities in other jurisdictions

1. Increased learning opportunities for council staff
2. Understandable annual council-based explanation of allocation changes
3. Work plans which have reasoned and achievable priorities and projects
4. Regular reviews of Commission processes and models

1. Regular meetings or written updates to Division Head and Secretary
2. Annual planning day which results in work plans and related resource requirements
3. Development of Treasury’s understanding of IT and administrative support for Commission

1. Regular reviews against National and Commission principles
2. Regular reviews of Commission processes at planning day and other times.
3. All discussions and decision making by the Commission are comprehensible by councils.
State Grants Commission
Business/Work Plan 2019-2029 - the methodology framework

The Commission’s Strategic Plan has prompted the Commission to consider its future projects in two parts:

1. Methodology related – with the objectives of:
   - Accuracy;
   - Reliability;
   - Future proofing; and
   - Governance.

2. Specific issues – the Commission will ensure that the preparation for and undertaking of a work project will entail a process to ensure confidence in the Commission’s determinations:
   a. “Map” the projects; determine the objectives – Research
   b. Early stakeholder consultations – “Conversation Starters”
   c. Design of project and resourcing – “Discussion Papers”
   d. Implementation – decision and implementation
   e. Closure – review the project and consider any learnings for future projects.

In diagrammatic form, the Commission’s FA model is comprised as follows:

1. **Data Input**

   **AIMS:**
   - Accuracy
   - Recognition of impact of inaccurate data (including expenditure and revenue categorisation)
   - Consistency of data inputs

   **WHICH REQUIRE:**
   - Education and instructions
   - Explanations
   - Checks and balances
2. The FA Model

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<th>IT Calculation Elements and Processes</th>
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<td><strong>Data</strong></td>
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<td>Checks and balances</td>
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<td>Identify questionable data</td>
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3. Annual Allocations

**AIMS:**
- Confidence
- Explainability to stakeholders

**WHICH REQUIRE:**
- Ability for the Commission to “highlight” possible inconsistencies
- Ability to analyse changing allocations
Priority Work Plan

The decisions of the Commission to undertake activities related to its purposes depends on a balancing of priorities and resource availability. The priorities are reviewed at least annually and the Commission has recently determined that there are some high priority and significant “quality” issues which need to be ensured due to the passage of time and the changes made to the FA model over the past decade or so.

It also has developed a provisional list of principles and policy based projects which have been raised by councils and are “on the Commission’s radar”. The priority of many of these projects are yet to be finalised and the feedback of councils is welcomed to assist in the Commission’s consideration of these matters.

(1) Methodology Projects:
   (a) Review current Excel based FA model - High priority (2019-20):
       - Terms of Reference/Scope
       - Inputs and outputs
       - Standardisation of processes
       - Accuracy and efficiency
       - IT Effectiveness
   (b) Enhancements to Methodology - High priority (2019-20, 2020-21):
       - Quality assurance – data input (instructions, education)
       - Data output (analytical tools)

(2) Specific Policy Projects:
   • Socio-economic Cost Adjustor – decision 2019-20
   • Impact on services of non-resident population – underway
   • Isolation and Scale Cost adjustors – cumulative impact – underway
   • Revenue assessment, including possible adjustors – medium priority
   • Document reviews - ongoing
   • Expenditure category review
   • Grant stability – averaging, caps and collars
   • Significant Data updates – as available (E.g. Census updates)
Feedback and timeframes

The Commission would welcome any feedback and suggestions in relation to its Strategic and Operational Planning Framework as well as its proposal to cease its triennium approach to implementing methodology changes.

Councils are invited to provide verbal feedback to the Commission as part of its hearings and visits process, which is currently being organised for early 2020.

Councils wishing to also provide written feedback should forward this to the Commission Executive Officer as follows:

- By post: Executive Officer
  State Grants Commission
  GPO Box 147
  HOBART TAS 7001

- By email: SGC@treasury.tas.gov.au

Written Feedback would be appreciated by close of business, Friday 28 February 2020.

Further details regarding the annual assessments and methodology used by the Commission can be found in the State Grants Commission 2018-19 Annual Report, including 2019-20 Financial Assistance Grant Recommendations, the State Grants Commission 2019-20 Financial Assistance Grant Data Tables and the State Grants Commission Financial Assistance Grant Distribution Methodology paper. These documents are available on the Commission website. Go to the Commission webpage (https://www.treasury.tas.gov.au/state-grants-commission) and then click Methodology and Publications.

Any queries should be directed to the Executive Officer on (03) 6166 4274.