State Grants Commission

Financial Assistance Grant Distribution Methodology

STATE GRANTS COMMISSION

Tasmanian Government

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Contents

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1. Legislation governing the Financial Assistance Grants

There are two pools of funding provided to each jurisdiction, which are collectively referred to as Financial Assistance Grants (FA Grants). These are the Base Grant (General Purpose) funding pool and the (Identified Local Roads Fund) Roads Grant funding pool.

The Commonwealth *Local Government (Financial Assistance) Act 1995* (the Local Government Financial Assistance Act) prescribes:

- the conditions that must be fulfilled for the states to receive the FA Grant funds; and
- stipulates a set of national principles governing their distribution among local governing bodies.

The national Base Grant pool is distributed to states and territories based on population shares as at 31 December in the year prior to the application of the grants.

The Road Grant pool is distributed between the states and territories based on historically agreed shares.

1.1 Preconditions for receipt of Financial Assistance Grant funding

The Local Government Financial Assistance Act requires each jurisdiction to have established a local government grants commission, the membership of which must include two persons associated with local government. The *State Grants Commission Act 1976 (Tasmania)* (SGC Act) establishes the State Grants Commission (the Commission) as the local government grants commission for Tasmania.

The Local Government Financial Assistance Act requires grants to be distributed within states in accordance with National Principles agreed between the Australian Government, the States and representatives of local government.

The Local Government Financial Assistance Act also requires local government grants commissions to hold public hearings and permit local governing bodies to make submissions in relation to recommendations regarding distribution of the grants. To comply with this requirement, and ensure that its models, methodologies and the resulting distribution recommendations are in accordance with the requisite principles and reflect contemporary practice, the Commission liaises with Tasmanian councils on an annual basis. This is undertaken as both public hearings in each region, and visits to councils on a regular rotating basis.

The Local Government Financial Assistance Act also requires that distribution recommendations submitted to the Australian Government by the State Minister must be those recommendations made by the local government grants commission of the respective state. That is, the State Minister is not able to change recommendations that are submitted by the Commission.

1.2 National Principles

The principles have been developed in consultation with the states, territories and local government. The National Principles are as follows:

National Principles for the distribution of Base Grant funds

1. Horizontal Fiscal Equalisation

General-purpose grants will be allocated to local governing bodies, as far as practicable, on a full horizontal equalisation basis as defined by the Act. This ensures that each local governing body in the State/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. It takes account of differences in the expenditure required by those local governing bodies in the performance of their functions and in the capacity of those local governing bodies to raise revenue.

2. Effort Neutrality

An effort or policy neutral approach will be used in assessing expenditure requirements and revenue raising capacity of each local governing body. This means as far as practicable, policies of individual local governing bodies in terms of expenditure and revenue effort will not affect the grant determination.

3. 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/Territory on a per capita basis.

4. Other Grant Support

Other relevant grant support provided to local governing bodies to meet any of the expenditure needs assessed should be taken into account using an inclusion approach.

5. Aboriginal Peoples and Torres Strait Islanders

Financial assistance shall be allocated to councils in a way that recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

6. Council Amalgamation

Where two or more local governing bodies are amalgamated into a single body, the general-purpose grant provided to the new body for each of the four years following amalgamation should be the total of the amounts that would have been provided to the former bodies in each of those years if they had remained separate entities.

National principle for the distribution of Road Grant funds

Identified Road Component

The identified road component of the financial assistance grants should be allocated to local governing bodies, as far as practicable, based on the relative need of each local governing body for road expenditure to preserve its road assets. In assessing road needs, relevant considerations include length, type and usage of roads in each local governing area.

Each local government grants commission is required to exercise judgement as to how it interprets and applies the national principles[1].

The most important principle applying to the base grant distribution is horizontal fiscal equalisation (HFE). In making its recommendations for grant entitlements each year, the Commission adheres to the definition of HFE as dictated by the National Principles.

It should be noted that compliance with the other national principles results in partially compromised HFE outcomes due to the minimum grant principle, which requires that 30 per cent of a state's base grant entitlement be quarantined and distributed among local governing bodies on an equal per capita basis.

In summary, the other base grant principles are:

- the need for effort neutrality in the assessments;
- the inclusion of other grant support in the assessments;
- the recognition of the needs of Aboriginal Peoples and Torres Strait Islanders; and
- the equitable treatment for amalgamating municipalities.

The Road Grant principle requires the Commission to recognise the needs of councils in order to preserve their road and bridge assets.

A review of intrastate distribution principles was undertaken by the Commonwealth Grants Commission in 2013 at the request of the then Commonwealth Government Treasurer. It is the second such review of the arrangements, the last being completed in 2001. The final report was submitted to the Commonwealth Government in December 2013 for consideration. It has not been publicly released.

1.3 State Principles

In addition to the National Principles, the Commission itself has developed its own State Principles to provide additional detail on the rationale for the framework and methodology it uses to make its annual recommendations. The State Principles also provide a guideline for the Commission to ensuring consistency in decisions and policies the Commission adopts and how it interprets the National Principles. The State Principles ensure that before there is any deviation from the principles, the matter must be carefully considered in the context of the State Principles and the deviation needs to be clearly explainable and justified.

The State Principles are detailed in Attachment 1.

[1] The Commonwealth Grants Commission has previously also reviewed how each state and territory has interpreted and applied the principles (in 2001 in respect of the Base Grant Principles and in 2006 in respect of the Local Road Grant principles).

2. Base Grant distribution

The base grant portion of the FA Grants to councils is distributed on the basis of a "two pool" approach, by firstly allocating the per capita grant (30 per cent of total Base Grant) on the basis of council population shares, and then distributing the remainder (70 per cent of total Base Grant) on a relative needs or "equalisation" basis. The approach ensures simplicity and transparency in calculating the distribution of the separate components of the Base Grant and the application of the Minimum Grant Principle.

The Commission uses an equalisation model, also referred to as a "balanced budget" approach, to calculate the distribution of the relative needs portion of the base grant pool. This means the Commission assesses:

(a) each council's 'expenditure requirement' necessary to provide services to a common standard with all other councils, and

(b) each council's 'revenue capacity', being their capacity to raise revenue to provide such services.

A fundamental principle on which the Commission's BGM is based is the current, operational transaction view of councils. This means the Commission assesses council operational revenues and operational expenditures and disregards capital natured transactions. This is because capital transactions by their very nature are irregular, produce significant distortion to a council's position and can reflect transactions that are more subject to policy decisions of councils. As the Base Grant funding is aimed at assessing council operational requirements and be policy neutral, the Commission makes its assessment of each council's relative need for assistance based on operational information.

2.1 Relative Needs Assessment

The difference between each council's revenue capacity and expenditure requirement determines each council's relative needs requirement and thus the extent to which, if any, each council receives a share of the relative needs pool.

Revenue Capacity	Less	Expenditure Requirement	=	Standardised Surplus/Deficit

Those councils that are assessed to have a 'standardised deficit' (i.e. their expenditure requirement is greater than their revenue capacity) receives a share of the relative needs pool according to its share of the state total standardised deficit.

In summary, the results of the relative needs assessment for each council determines whether it receives a share of the 70 per cent of the Base Grant Funding pool available after the Minimum Grant requirement has been applied.

If expenditure requirement exceeds revenue capacity. The difference is the council's deficit and the council will **receive** a share of the relative needs pool according to its share of the sum of all council deficits.

If revenue capacity exceeds expenditure requirement. A council is assessed as having zero relative need and **will not receive** a share of the relative needs pool. These councils will still be entitled to its population share of the per capita pool.

The Commission currently determines each council's "revenue capacity" as the sum of three components as follows:

Each council's **'Revenue Capacity'** is calculated using three-year averages of the following:

1. **Standardised Revenue** i.e. the revenue that the council could raise by applying a standard or average rate per dollar of adjusted annual value (AAV) to all rateable property in its area; *plus*
2. **Minimum Grant** i.e. the council's per capita grant allocation; *plus*
3. **Other Financial Support** (OFS) i.e. grants and other payments to councils that have not been deducted from council expenditures in the process of calculating standardised expenditure.

The Commission also determines each council's "expenditure requirement" as the sum of three components as follows:

Each council's **'Expenditure Requirement'** is calculated as follows:

- **Adjusted Expenditure** i.e. a three-year average of the expenditure 'required' to provide a common range of services allowing for each council's unique cost conditions**;** *plus*
- any **allowances** made in respect of services which are not adequately captured as 'adjusted expenditure'; *plus*
- the '**Budget Result Term'**.

The Budget Result Term (BRT) is the balancing item within the assessment that allows a 'balanced budget' at a state level. The BRT is the difference between all statewide sources of revenue, including the grant pool, and all statewide expenditure requirements. It is then distributed across councils on a per capita basis.

The Commission uses data in its modelling of standardised revenue and adjusted expenditure from two primary sources. Firstly, data is provided by councils via the Local Government Division (LGD) of the Department of Premier and Cabinet's Consolidated Data Collection (CDC) process. Secondly, the Commission supplements CDC data with data provided by a variety of specialist data providers, including the Valuer-General and the Australian Bureau of Statistics (ABS). Councils also provide supplementary input as requested.

Despite the sophistication of the Commission's methodology, there is often a need for the Commission to exercise broad judgement as it considers various issues that arise each year.

2.2 Revenue Capacity

For the purposes of determining the annual revenue capacity of councils in the Base Grant Model (BGM), the Commission adopts the following principles for classifying revenues received by councils:

- all revenues should be included in the base grant assessment, except where a case is made for its exclusion; and
- those revenues that are within the scope of council's sphere of influence are included in the Standardised Revenue calculation (refer section 2.2.1); or

- those revenues and grants that are received from sources where the council has no influence over what revenue or grant is derived are included as Other Financial Support (OFS) (refer section 2.2.2).

Grant receipts that relate to capital expenditure are ignored for the purposes of the Commission's Base Grant methodology.

2.2.1 Calculation of standardised revenue

The Commission uses revenue sources that are available to all councils that fund services that are provided by councils generally in its assessment of council revenue raising capacity. The Commission sums the total of each council's actual revenues as reported in the respective council's CDC return to determine Total State Revenue.

The Commission calculates councils' standardised revenue each year by applying the State's average revenue in the dollar, as calculated by the Commission, to the Adjusted AAV of each municipality. The three-year average of council's Standardised Revenue is then used in the Commission's calculation of Revenue Capacity.

The State average revenue in the dollar is calculated using the following formula:

State average revenue in the dollar = State Total of Council Revenues / State Total of Adjusted AAV

Standardised Revenue for each council is calculated as follows:

Standardised Revenue = State average revenue in the dollar x Council Adjusted AAV

The revenue categories included in calculating the State Total of Council Revenues are:

- General Rates;
- Special Rates;
- Garbage Charges;
- Returns from Waste Management Authorities (Dividends, Income Tax Equivalents, Guarantee Fees);
- User Fees, Charges and Fines (Net of Parking);
- Total Interest Received;
- Current Revenue (Not Elsewhere Classified); and
- Profit on Sale of Assets[2].

The Commission currently excludes car parking revenue as, in practice, it is not a revenue source available to all councils.

The Fully Rateable AAV, and Fully Rateable Rate in the Dollar, is determined for each council as:

[2] The Commission also undertakes a review of Profit on Sale of Assets for abnormal transactions e.g. significant asset write-downs. Depending on the nature of the transaction and its value materiality in the Statewide context, the Commission may choose to adjust for the transaction in its BGM.

(a) the total AAV of all properties in the respective municipality; minus

(b) fully exempt properties and partially exempt AAV for each municipality.

The Commission uses AAV data supplied by the Office of the Valuer-General, and exempt and partially exempt AAV and rate and other categories of revenue information obtained from the Local Government Division's CDC returns.

The Fully Rateable Rate in the dollar of Fully Rateable AAV calculation is then adjusted to account for the revenue and the value of properties that are partially exempt from rates, that is, those properties that are liable for service charges only. This results in the Adjusted AAV, to which the State average revenue in the dollar is applied to determine standardised revenue.

The standardised revenue measure used in the Base Grant assessments is the relevant three-year averaged standardised revenue for each council.

2.2.2 Other Financial Support (OFS)

The National Principles require the Commission to include the receipt of grant funding in its deliberations for grant outcomes. Generally, councils are unable to influence the outcome or the amount of grant funding they receive and therefore this funding is classified as Other Financial Support (OFS). The Commission treats such funding by either:

- the 'inclusion' approach; or
- the 'deduction' approach.

2.2.2.1 OFS by Inclusion

The Commission uses the following guidelines to determine if funding received by councils should be taken into account using the inclusion approach, i.e. treating the funding received as a revenue source:

- all councils have access to the funding pool;
- the funding finances activities which fall within the ordinary scope of local government activity; and
- the funding is untied, that is, councils are able to spend the funds as they see fit.

The Commission currently classifies the following financial receipts by councils using the "Inclusion" approach:

- State Heavy Vehicle Motor Tax Revenue (HVMTR);
- Road Grants;
- Commonwealth Roads to Recovery (R2R) payments; and
- financial returns from TasWater.

The Road Grants and Heavy Vehicle Motor Tax Revenue receipts used by the Commission in determining OFS by Inclusion are the funding receipts that align with the CDC year of revenues and expenditures i.e. the Commission maintains the nexus of the year of expenditure and the revenues and grant receipts.

2.2.2.2 OFS by Deduction

The Commission uses the following guidelines to determine if funding received by councils should be taken into account using the deduction approach, i.e. treating the funding received as an offset against its associated operational expenditure:

- the revenues are received by councils from sources such as another level of government or government authority;
- the revenues are received by only a relatively small number of councils;
- the funding results in the provision of a service that is beyond the scope of ordinary local government activity, such that the council is effectively acting as an agent of the State or Commonwealth Government and the service would not have been provided if not for the receipt of the financial assistance; or
- the funding may represent a reimbursement of costs incurred or be tied to the delivery of a service in some manner.

Examples of grant revenues assessed using the deduction approach include funding related to nursing home/aged care services, childcare services, land care, arts and tourism centre funding.

Assessing grant funding using the deduction approach results in the reduction of the reported expenditure against the respective expenditure category for the council. This results in a Net (less OFS) expenditure result. This treatment reflects the fact that the expenditure would not have occurred were it not for the receipt of the funding and typically grant funding receipts represent a contribution to, but not 100 per cent funding of a program. Tied or shared funding arrangements are treated using the deduction approach.

2.2.3 Minimum Grant

The Commission includes a three year average of the Minimum Grant, i.e. the per capita grant allocation received by each council, in determining revenue capacity.

2.3 Expenditure Requirement

2.3.1 Adjusted expenditure (non-roads expenditure)

In general, the Commission works on the principle that the cost of providing council services varies in proportion to the number of residents. Therefore, to determine the average expenditure a council would require to provide the 'average' level of services, the Commission sums the total of that expenditure type spent by all councils and divides the total by the total State population to determine the average per capita spent. The Commission then multiplies the average per capita expenditure rate by the number of residents in each municipality.

Councils face a range of unavoidable cost and demand pressures in providing services, the effect of which is that a council may be unable to provide a service at the average level of expenditure. In addition, some councils may benefit from cost and demand advantages due to size and the community characteristics. The Commission recognises these through the application of council-specific cost adjustors to assist the determination of adjusted expenditure for each council.

This approach is applied to all expenditure categories, with the exception of the roads expenditure category[3] and the Other expenditure category. The method of calculating adjusted road expenditure is described in Section 2.2.1.3.

Table 1 provides an indication of the types of expenditure that are included in assessing each expenditure function.

Table 1: Base Grant Assessment: Description of Expenditure Functions

Expenditure function*	Explanation of expenditure function
General administration	Legislative, executive, financial and fiscal affairs relating to general purposes only (that is, not solely related to any one of the purposes listed below).
Health, housing and welfare	Services for the aged, community health services, health inspections, family and child welfare, housing services.
Law, order and public safety	Fire protection, support of State Emergency Service, animal control and other public order and control.
Planning and community amenities	Planning and building services, street lighting, public conveniences, shopping malls, cemeteries and crematoria.
Recreation and culture	Public halls and civic centres, swimming pools, parks and playing grounds, sports assistance and promotion, libraries and other cultural services.
Roads	Re-construction and maintenance of roads and bridges.
Waste management and the environment	Household and other garbage services, urban storm water drainage, street cleaning, flood mitigation and other protection of the environment.
Other	Expenditure on items not elsewhere classified. Includes: saleyards and markets; tourism and area promotion; aerodrome operations; communications; and natural disaster relief.

*The Commission uses the ABS Concordance of functional expenditure to align expenditures to its Expenditure functions.

2.3.1.1 Application of council-specific cost adjustors

Cost adjustors are used to reflect the inherent relative cost advantages or disadvantages faced by councils in providing services. A range of cost adjustors has been developed to quantify differences in the demand for services between councils, as well as variations in the per unit cost of supplying that service.

An adjustor is calculated for each municipality by comparing its demand or supply disadvantage with the State average. Any council that demonstrates the State average level of advantage/disadvantage is assigned a cost adjustor of 1.00. Cost adjustors are less than 1.00 if the council is assessed as having a cost advantage and greater than 1.00 if the council is assessed as having a relative cost disadvantage.

[3] Road expenditure is not subjected to cost adjustors in the Base Grant Model. This is because the Road Preservation Model contains road cost adjustors. The total State road expenditure in the Base Grant Model is then re-profiled in the same proportions as the Road Grant funding is distributed by the RPM.

The following cost adjustors are recognised by the Commission:

- Absentee population
- Climate
- Dispersion
- Isolation
- Population decline
- Scale (administration)
- Scale (other)
- SEIFA (IRSD)
- Service Industry Employment (SIE)
- Tourism
- Worker influx

The application of cost adjustors to each expenditure category is detailed in Table 2.

Table 2: Base Grant Assessment: Allocation of cost adjustors to expenditure functions

Expenditure Function*	Cost Adjustors	
General administration	Absentee population Isolation	Population decline Scale (administration)
Health, housing & welfare	Population decline	
Law, order & public safety	Dispersion Population decline	Tourism
Planning & community amenities	Absentee population Climate Dispersion Isolation Population decline	Scale (other) SEIFA (IRSD) Tourism Worker influx
Recreation & culture	Absentee population Climate Dispersion Isolation Population decline	Service Industry Employment Scale (other) Tourism Worker influx
Roads	See Section 2.2.1.3	
Waste management & environment	Absentee population Climate Dispersion Worker influx	Population decline Scale-other Tourism
Other	No cost adjustors are applied to 'other' expenditure	

*Expenditure sourced from Function Detail workbook Row CI of CDC

In tabular form, the cost adjustors are applied to the following expense categories.

Name	Absentee Population	Climate	Dispersion	Isolation	Population Decline	Scale (Administration)	Scale (Other)	Tourism	Worker Influx	SEIFA (IRSD)	Service Industry Employment
General Administration	1			1	1	1					
Health, Housing and Welfare					1						
Law, Order and Public Safety			1		1			1			
Planning and Community Amenities	1	1	1	1	1		1	1	1	1	
Waste Management and Environment	1	1	1		1		1	1	1		
Recreation and Culture	1	1	1	1	1		1	1	1		1
Other											

An outline of the approach used to quantify each of the cost adjustors is provided below. Full details of calculations made in determining each cost adjustor are contained within the equalisation model itself. A condensed version of this is available to councils on request. Detailed information on each current cost adjustor is also available in discussion papers available from the Publications page of the Commission website.

(i) Absentee population

The Commission makes an allowance for additional populations that are not captured in the Census statistics, but nevertheless must be serviced by Council. Specific reference is made to those municipalities that have a significant number of holiday residences. This cost adjustor is based on the proportion of unoccupied dwellings in each municipality as measured by the most recent Census data that is available.

(ii) Climate

The Climate Cost Adjustor recognises additional costs arising from climatic factors, such as excessive 'downtime' of outdoor work due to rain, as well as increased maintenance costs on council infrastructure through adverse weather. The calculation of the Climate Cost Adjustor is based on the long-term average of total annual rainfall in each municipality's administrative centre in excess of 2 000mm, as indicated by Bureau of Meteorology data.

(iii) Dispersion

The Dispersion Cost Adjustor relates to the additional costs incurred in servicing a widely scattered population within a municipality. The Commission recognises that additional costs arise due to the need to service a dispersed population, through increased travelling and communication costs and duplication of facilities.

The cost adjustor is determined according to:

- the number of population centres in each council area;
- the population-weighted distance between those centres and the council's administrative centre; and
- the dwelling-weighted distance between those centres and the council's administrative centre.

This cost adjustor is based on population and dwelling numbers at collector district (CD) level as at the most recent Census data that is available.

(iv) Isolation

This cost adjustor recognises the increased costs that arise from geographical isolation. Such costs include attracting staff to remote areas, communicating with relevant bodies, travel and the supply of necessary construction and maintenance materials.

The cost adjustor is calculated according to a weighted sum of distances between each council's administrative (or most populous) centre, the relevant regional centres and Hobart, being the focus for administrative and political activity within the State. The weighting of distances for each council to calculate this cost adjustor is shown in Table 3.

Table 3: Base Grant Assessment: Distance Weighting for Isolation Cost Adjustor

Southern Councils	*Hobart (100%)*
Northern Councils	*Hobart (10%), Launceston (90%)*
North-western Councils	
- closer to Devonport than to Burnie	*Hobart (10%), Launceston (20%), Devonport (70%)*
- closer to Burnie than to Devonport	*Hobart (10%), Launceston (20%), Burnie (70%)*

For the purposes of calculating this cost adjustor, the distances from King Island to Burnie and from Flinders Island to Launceston are inflated by 100 per cent in order to reflect the additional expense of travel and freight by air and sea.

(v) Population decline

The Commission recognises that councils face certain disadvantages because of fluctuating population, and management of such fluctuations typically requires planning horizons of several years. In particular, some councils are faced with excess capacity in certain service areas when subject to rapid population decline. These councils face proportionally higher expenditure burdens per capita, mainly due to fixed costs that do not reduce in line with declining population.

The cost adjustor for population decline is determined by calculating three-year average population growth rates for each council. A council with a negative three-year average is awarded a cost adjustor greater than 1.00, in proportion to the extent of the negative result.

(vi) Scale

The scale cost adjustor accounts for the diseconomies of scale that smaller councils face in providing some services. Diseconomies occur because the cost per person of providing a service is greater for councils with a small population than for those councils with larger populations.

Different expenditure categories demonstrate varying degrees of scale impacts. Accordingly, two scale cost adjustors have been developed; Scale (Administration) which is applied to general administration expenditure only, and Scale (Other) which is applied to certain other expenditure categories.

(vii) Service Industry Employment

The Commission accounts for the impact of non-residents on council services and activities through the use of a Service Industry Employment (SIE) Cost Adjustor. This cost adjustor

utilises the Australian Bureau of Statistics' Employment data for those divisions of employment categorised as Service Industries as they are most likely to be affected by non-residents visiting a council area.

The SIE Cost Adjustor contains a major cities cap of 40 per cent in recognition that major citites employment reaches very high levels which may not produce additional proportionate flows of non-residents consuming services.

(viii) Socio-Economic Indicator For Areas (SEIFA) Index of Relative Socio-Economic Disadvantage (IRSD)

The Commission calculates a cost adjustor to reflect the rate of socio-economic disadvantage within a municipality, using the Australian Bureau of Statistics (ABS) Socio-Economic Indicator For Areas (SEIFA) Index of Relative Socio-Economic Disadvantage (IRSD). This cost adjustor strives to broadly recognise the compounding effect on councils and resultant relative disadvantage as the demographic challenges of a population in a community compound.

(ix) Tourism

The Commission recognises that councils generally incur additional costs due to tourism that are unrelated to the number of residents through increased use of council resources and infrastructure.

The data currently underpinning this cost adjustor reflects domestic, interstate and international visitors to each municipality, as follows:

- domestic day-tripper data (30 per cent weighting), obtained from Tourism Research Australia; and
- tourist capacity (i.e. bed capacity) data (70 per cent weighting) obtained from Tiger Tourism.

Effective from the 2018-19 Base Grant Funding distributions, the Commission started its phase out of the Tourism Cost Adjustor over two years. This was done by:

- initially freezing the data sources informing the Tourism Cost Adjustor; and
- reducing the impact of the cost adjustor by 50 per cent from that applied for determining the 2017-18 Grant recommendations.

The Commission took this step due to the loss of a primary data source (bed capacity data), the absence of viable data source alternatives, and the weak correlations of tourism activity with the current tourism affected expenditure categories.

Due to continuing feedback from councils of the impacts of tourists, the Commission has subsequently determined that it would not complete the phasing out of the Tourism Cost Adjustor. Instead it has continued to apply the frozen, 50 per cent strength cost adjustor that it used for its 2018-19 Funding distribution level, pending further research into data sources that may ultimately result in the design and adoption of a new Tourism Cost Adjustor.

(x) Worker influx

This cost adjustor reflects the additional costs imposed on municipalities that have a significant daily net influx of non-resident workers. These workers do not directly contribute to the local council revenue raised through rates, however do contribute to council costs.

Determination of this cost adjustor involves estimating, from the most recent Census data that is available, both the number of residents working outside the municipality and the number of non-residents working within the municipality. The difference, or the net worker inflow, is used to derive a cost adjustor in relation to actual total population.

2.3.1.2 Allocation of Expenditure Allowances

Expenditure allowances are included in the calculation of a council's expenditure requirement where the cost of providing a service is not adequately captured by adjusted expenditure. Adjusted expenditure may fail to adequately reflect the relative cost of providing a service if:

(a) the service is not provided by all councils; or

(b) if there is inadequate data on which to base the calculation of a cost adjustor to reflect cost differences between councils in providing the service.

Two special allowances are currently used by the Commission when making its annual determinations. These are the medical general practice allowance and airport allowance.

The Commission continues to recommend special allowances to recognise the financial burden faced by some councils in attracting and retaining the services of general practitioners.

Allowances are applied to both Flinders and King Island Councils in recognition of the financial burden of supporting airport services to those islands. The Commission considers the special allowances to be justified because this expenditure is unavoidable for the Island councils.

The allowances represent the recognition of a need, but are not a full reimbursement of the costs of providing these services.

Details of the current expenditure allowance rates used by the Commission, and the recipient councils, are available from the Commission's website at http://www.treasury.tas.gov.au/state-grants-commission/methodology.

2.3.1.3 Calculation of adjusted roads expenditure

Within the BGM, adjusted road expenditure for each council is calculated by multiplying a council's share of the State's Road Grant distribution and the State's total road expenditure for each base year.

The Commission uses an asset preservation model to assess adjusted road expenditure. This model, known as the Roads Preservation Model, is described in detail in Section 3. The Commission excludes car parking expenditure from total road expenditure for those councils operating off-road and multileveled car parks before determining adjusted road expenditure and road grant entitlements.

2.3.1.4 Net adjusted expenditure

The Commission's modelled level of net adjusted expenditure per council is equal to the sum of modelled expenditure by Base Grant expenditure category detailed in Table 2.

3. Road Grant distribution

To accord with the Road Grant National principle, the relative road expenditure needs of each council are determined using the Roads Preservation Model (RPM). To ensure that the grant distribution reflects the mix of road and bridge assets maintained by councils, the model estimates the cost of asset preservation for both roads and bridges.

The road grant funds are distributed based on council shares of the total state adjusted cost of road and bridge expenditure.

3.1 Determination of the Roads Preservation Component

The RPM assesses the road preservation component for each council in three road classes:

- urban sealed;
- rural sealed; and
- unsealed roads.

Councils report road lengths for each of the three road classes through the CDC. By applying estimated life cycle costs to each council's reported road lengths, an unadjusted cost is calculated for each road type.

3.1.1 Standard Road Profiles

The RPM applies a standard road profile for each road class. These profiles were agreed by an engineers' working group established in 2012 to review the RPM. The profiles, together with relevant definitions, are set out in Graphic 1. Eligible roads are council owned roads that form part of the public road network. Fire trails and road easements for future roads are not eligible road lengths for the purposes of the RPM.

GRAPHIC 1 ROAD PROFILES USED IN THE ROAD PRESERVATION MODEL (RPM)

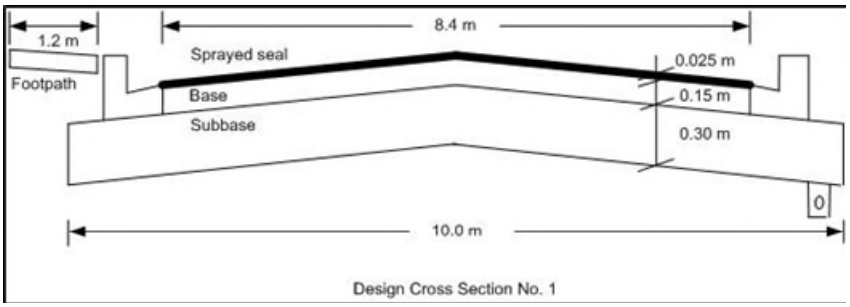
Definition of terms used in the RPM[1]:

Term	Definition
Maintenance[2]	All actions necessary for retaining an asset, as near as practicable, to its original condition or to reduce its rate of deterioration. (Includes rehabilitation, resurfacing and other maintenance)
Rehabilitation[2]	A major surfacing action for the purpose of returning the structural condition of the pavement to its as-constructed or design condition
Resurfacing[2]	To improve a pavement surface by the addition of a new wearing course
Other Maintenance[2]	Other maintenance tasks (not rehabilitation or resurfacing) to ensure the continued serviceability of the pavement.

[2] Taken from the Austroads Glossary of Terms (Fourth Edition, August 2010)

Urban Sealed

Diagram 1: Dimensions and profile of an urban sealed road



Maintenance

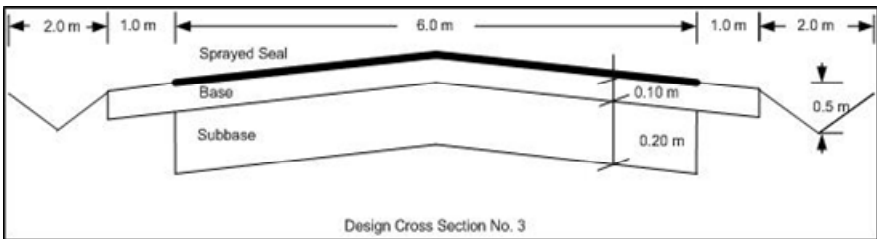
* Resurfacing of asphalt sealed surface with thin (25mm) asphalt surfacing.
* Resurfacing of sprayed seal surface with sprayed seal (1 coat with 10mm aggregate).
* Other routine maintenance e.g. pothole patching, guardrail and sign maintenance etc.

Rehabilitation

* Boxing out 100mm depth of base course pavement layer, placement of geofabric and laying of 100mm of asphalt

Rural Sealed

Diagram 2: Dimensions and profile of a rural sealed road



Maintenance

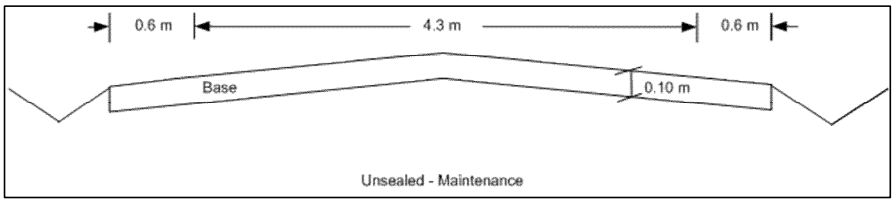
* Resurfacing or sprayed seal surface with sprayed seal (1 coat with 10mm aggregate)
- Other routine maintenance e.g. pothole patching, shoulder maintenance, guardrail and sign maintenance etc.

Unsealed

Maintenance

- Routine grading.
- Resheeting of surface.
- Other routine maintenance e.g. table drains, shoulder, guidepost and sign maintenance.

Diagram 3: Dimensions and profile of a rural unsealed road



[1] These Standardised Road Profile diagrams were provided by Mr John Howard of Jeff Roorda & Associates in his report entitled 'Updating of Contract Unit Rates for Roads Preservation Model' in December 2008 and subsequently updated in respect of the unsealed road profile.

The current performance standards, assumed costs and assessment methods that are used by the Commission to determine the unadjusted (before cost adjustors) life cycle cost per kilometre per annum per road class used in the RPM are published in the annual State Grants Commission Financial Assistance Grant Data Tables publications.

The proportions applied to the maintenance methods and the estimated lives of each road type for the asset preservation life cycle costs were obtained by taking averages from data collected from councils in late 2011.

The Commission indexes the per kilometre rates based on the change in The Building Economist Index (BCI) (Melbourne rates) as at March each year[4].

3.1.2 Urbanisation Allowance

An urbanisation allowance is applied within the RPM as recognition that urban roads in the central business districts of councils are significantly more complex, engineered to a much higher standard and have shorter life spans than the standard road profile, and the asset preservation costs are accordingly materially greater. Every metre of road length meeting the criteria for urbanisation allowance is assessed as being three metres of road length and reflected in the respective council's unadjusted asset preservation need (pre-cost adjustors being applied).

Although most councils would experience this problem to some extent, the Commission specifically recognises one distinct central business district for six city councils. This allowance has been applied within the RPM since 2000-01.

In December 2017, based on the consultant's advice, the Commission introduced an Urbanisation Allowance Checklist, which is a checklist of both essential and other characteristics that a road should demonstrate or satisfy in order to be counted as eligible for the Urbanisation Allowance. Road lengths that are considered eligible, are recognised at three times their road length in the Commission's RPM, as a means of recognising the higher ongoing

[4] The Commission first applied indexation of its per kilometre rates in 2015, with the initial indexation factor representing the movement in between the December 2011 and the March 2015 BCI indices.

costs councils face in maintaining and servicing these roads[5]. Final calculated road lengths are then assessed as normal within the RPM.

To be regarded as eligible for the Urbanisation Allowance, a section of road must satisfy the following:

- 100 per cent of the characteristics specified in the Essential Characteristics section of the Urbanisation Allowance Checklist; and
- A minimum of 75 per cent of the characteristics specified in the Other Characteristics section of the Urbanisation Allowance Checklist.

The Urbanisation Allowance Checklist can be used by councils to assess and review sections of roads for eligibility, and to advise of any changes to their road lengths as and when required in the future. The annual deadline for any updates in eligible road lengths for inclusion in the forthcoming year's grant determinations is 31 May.

In 2018 the Commission requested the city councils review their road lengths based on the criteria specified in the Urbanisation Allowance Checklist. This resulted in some changes in the road lengths eligible for the allowance. Details of the road lengths assessed as eligible using the Urbanisation Allowance Checklist criteria are published on the Commission's website at http://www.treasury.tas.gov.au/state-grants-commission/methodology.

3.1.3 Bruny Island Allowance

The RPM also provides for the higher costs of preserving roads on Bruny Island by applying a higher rate per kilometre for Bruny Island road lengths. This is reflected in the Kingborough Council's unadjusted asset preservation need (pre-cost adjustors being applied).

Higher asset preservation needs relating to the road network on Flinders and King Island are recognised through the Remoteness Cost Adjustor.

3.1.4 Application of council-specific cost adjustors

By applying the performance standards and assumed costs to each council's reported road lengths for the three categories Urban sealed, Rural sealed and Unsealed, inclusive of the urbanisation allowance "three times" road length adjustment, annual unadjusted road expenditure can be calculated for each council.

Cost adjustors are then applied by the Commission to the annual unadjusted road expenditure for each council to account for cost differentials between councils. The RPM currently applies four cost adjustors, namely rainfall, terrain, traffic and remoteness, to each road type.

(i) Rainfall Cost Adjustor

The cost adjustor for rainfall provides a measure of the relative cost advantage or disadvantage associated with the rainfall incidence on each council's road network.

The Rainfall Cost Adjustor uses rainfall and road data provided by the Geographic Information System (GIS) operated by the Department of Primary Industries, Parks, Water and

[5] In 2017 the Commission consulted with councils on the Urbanisation Allowance, and based on the feedback received, concluded that the "three times" factor was still appropriate.

Environment (DPIPWE). The GIS details road lengths for each council within specific rainfall bands for each road class.

This cost adjustor is calculated according to road length within three rainfall bands. Road lengths within the rainfall bands are weighted by cost factors to provide an overall rainfall cost adjustor for each road type. The rainfall thresholds and cost factors were recommended by the Institute of Public Works Engineering Australia (IPWEA) and are shown in Table 4.

Table 4: Road Grant Assessment: Cost Factors for Rainfall Cost Adjustors

Rainfall Bands	Sealed roads	Unsealed roads
Less than 600 mm	0.95	1.05
600-1000 mm	1.00	1.00
Greater than 1000 mm	1.05	1.05

The cost factors indicate that low rainfall confers a cost disadvantage in respect of unsealed roads, due to dust management costs associated with dry weather. Conversely, low rainfall constitutes a cost advantage in respect of works on sealed roads. High rainfall is considered a cost disadvantage for both sealed and unsealed road maintenance activities.

(ii) Terrain Cost Adjustor

The cost adjustor for terrain provides a measure of the relative cost advantage or disadvantage associated with the terrain characteristics on which council road networks are built.

The cost adjustor uses terrain and road data provided by the Geographic Information System (GIS) operated by the DPIPWE. The GIS provides road lengths for each council within specified longitudinal terrain gradients.

This cost adjustor is calculated by considering road length within three terrain bands, using the three road types considered by the Commission.

Road lengths within these terrain bands are weighted by cost factors to provide an overall terrain cost adjustor for each road type. These terrain bands were recommended by the IPWEA and are shown in Table 5.

Table 5: Road Grant Assessment: Cost Factors for Terrain Cost Adjustors

Terrain bands	Urban sealed roads	Rural sealed roads	Unsealed roads (urban and rural)
Less than 0.5 degrees	1.00	1.10	1.10
0.5 –9.0 degrees	1.00	1.00	1.00
Greater than 9.0 degrees	1.10	1.10	1.15

The cost factors reflect terrain disadvantage for all roads constructed on steep terrain, flat rural sealed roads and all unsealed roads in flat areas of the state. Some disadvantages associated with flat terrain include problems with surface drainage, groundwater management and localised flooding resulting in pavement break-up. Disadvantages associated with steep terrain include the requirement for traffic management during maintenance, shoulder instability, drainage scouring, corrugations due to braking and wear due to 'shoving and heaving' of reticulated vehicles.

(iii) Traffic Cost Adjustor

The cost adjustor for traffic provides a measure of the relative cost disadvantage associated with higher than average volumes of heavy vehicle traffic on council road networks.

The cost adjustor is calculated using data provided by the Department of State Growth (DSG). Every three years, DSG conducts a survey of the largest freight demanders in Tasmania, and seeks to collect origin, destination and tonnage data for freight movements to assist with strategic infrastructure planning at a State level. This is referred to as the Tasmanian Freight Survey (TFS). The Commission publishes the most recent survey results in its State Grants Commission Financial Assistance Grant Data Tables publication each year.

The Commission uses the TFS results to determine the amount of freight being moved over different road types of the local government road network.

The DSG uses the ABS classifications of Section of State/Urban Centre and Locality (SOS/UCL) structures of the Australian Statistical Geography Standard to define what is classed as Urban and Rural for the purposes of the TFS. The SOS aggregates the Urban Centre and Locality (UCL) on the basis of population ranges i.e. all UCLs in a State/Territory within a particular population range are combined into a single SOS.

There are 4 SOS identifiers and names. These are listed in Table 6 with definitions.

Table 6: Section of State/Urban Centre and Locality Identifiers and Names

Identifier	Name	Definition
0	Major Urban	Major Urban represents a combination of all Urban Centres with a population of 100,000 or more
1	Other Urban	Other Urban represents a combination of all Urban Centres with a population between 1,000 and 99,999
2	Bounded Locality	Bounded Localities represents a combination of all Bounded Localities
3	Rural Balance	Rural Balance represents the Remainder of State/Territory

The 2014-15 TFS data adopts the SOS/UCL classification of roads, inclusive of bounded localities with populations greater than 200, as defining Urban roads. The allocation of the total freight task into urban and rural proportions informs the traffic cost adjustors used in the RPM.

Relative positions for each council are established by dividing each council's total tonne-kilometres by its road length for each road type. The traffic cost adjustors for each road class are calculated by ranging these relative positions between limits, based closely on those determined by Mr P Mulholland from the Australian Road Research Board in 1989. These limits are shown in Table 7.

Table 7: Road Grant Assessment: Traffic Cost Adjustor Limits

	Urban sealed	Rural sealed	Unsealed roads (urban and rural)
Upper limit (maximum cost adjustment)	1.11	1.25	1.25
Lower limit (minimum cost adjustment)	0.93	0.96	0.91

(iv) Remoteness Cost Adjustor

This cost adjustor provides a measure of the relative cost advantages and disadvantages associated with distance from suppliers of road-making materials. An adjustor is required as cartage costs are a significant cost component of all road works.

The Remoteness Cost Adjustor is based upon distances between a central point in each council's road network and the closest of the four major population centres of Burnie, Devonport, Launceston or Hobart, where the largest suppliers are located. The 'non-land' component from Flinders and King Islands to their respective regional centres is inflated by 50 per cent in recognition of the higher cost of transportation to the Island councils.

The central road network locations, selected regional centre and measured distances are shown for each council in Table 8.

Table 8: Road Grant Assessment: Distance Measurements for the Remoteness Cost Adjustor

Council	Central Point	Regional Centre	Distance (km)
Break O'Day	St Helens	Launceston	163
Brighton	Bridgewater	Hobart	22
Burnie	Burnie	Burnie	0
Central Coast	Ulverstone	Devonport	22
Central Highlands	Hamilton	Hobart	73
Circular Head	Smithton	Burnie	85
Clarence	Rosny Park	Hobart	8
Derwent Valley	New Norfolk	Hobart	38
Devonport	Devonport	Devonport	0
Dorset	Branxholm *	Launceston	85
Flinders #	Whitemark	Launceston	271
George Town	George Town	Launceston	51
Glamorgan Spring Bay	Swansea *	Hobart	137
Glenorchy	Glenorchy	Hobart	12
Hobart	Hobart	Hobart	0
Huon Valley	Geeveston *	Hobart	60
Kentish	Sheffield	Devonport	29
King Island #	Currie	Burnie	333
Kingborough	Margate *	Hobart	20
Latrobe	Latrobe	Devonport	10
Launceston	Launceston	Launceston	0
Meander Valley	Deloraine *	Launceston	50
Northern Midlands	Epping Forest *	Launceston	55
Sorell	Dodges Ferry *	Hobart	39
Southern Midlands	Oatlands	Hobart	85
Tasman	Nubeena	Hobart	100
Waratah-Wynyard	Wynyard	Burnie	19
West Coast	Zeehan	Burnie	139
West Tamar	Exeter *	Launceston	23

*Note: locations marked * are different from the administrative centres used for dispersion measurement in the Equalisation Model. These locations have been selected where the administrative centres are not close to the geographic centres of councils' road networks. The councils marked # (Flinders and King Island) include an additional 50 per cent weighting of the non-road component of the measured distance.*

For the purposes of cost adjustor calculation, the distances, which represent the relative position of councils, are re-ranged to confer a 20 per cent maximum and 0 per cent minimum cost adjustment in relation to remoteness.

The application of the urbanisation allowance and the four cost adjustors to the standard road costs produces a figure that theoretically represents the amount councils should spend annually to preserve their road assets.

3.2 Determination of the Bridge and Culvert Preservation Component

The Commission collects comprehensive bridge and culvert data for each council through the annual CDC process. The RPM assesses the bridge and culvert annual asset preservation needs for each council based on four bridge types (concrete, steel, timber and other/concrete/timber hybrids) and two culvert types (reinforced concrete pipe and reinforced box culvert).

By applying estimated life cycle costs to each council's reported bridge and culvert deck area by type, a preservation cost can be calculated for each bridge and culvert type.

The method for classifying bridges by bridge type for the RPM purposes is detailed in Table 9 below:

Table 9: Road Grant Assessment: Classification of Bridges by type for RPM purposes

Bridge Type	Construction Material
Concrete bridges (CON)	bridges constructed of 100 per cent concrete (piers, beams, deck)
Timber bridges (TIM)	bridges constructed of 100 per cent timber (piers, beams, deck)
Steel bridges (STL)	bridges constructed of 100 per cent Steel (piers, beams, deck)
Concrete & Timber/Other bridges (OTHER)	bridges constructed of mixed materials (e.g. where it may be constructed of a combination of concrete and timber or other materials), or constructed of another material other than concrete, timber or steel.

It should be noted that the classification of bridges for the RPM purposes may differ to classifications used for other engineering or asset reporting purposes.

In those years that the Commission does not undertake a detailed bridge and culvert cost review, the Commission updates the asset preservation rates for council bridges and culverts, based on the average rate of increase in the cost of the road components, which are indexed based on the AQIS BCI road component movement for Melbourne as at March each year.

The bridge and culvert asset preservation rates used by the Commission are published each year in the annual State Grants Commission Financial Assistance Grant Data Tables publications. For rates applicable in previous years, please refer to the relevant annual report or data tables publications.

3.2.1 Eligible bridges

Examples of the application of the profile dimensions of eligible bridges and eligible culverts are shown in Graphic 2.

For the purposes of the RPM, the Commission defines an eligible bridge as a structure that spans a waterway, chasm, road, railway line or some other obstacle such that it provides a deck for the passage of vehicles, pedestrians or stock, as part of the council road network. The deck is suspended between abutments and a bridge can be single or multi spanned. Bridges less than 3 metres total span are ineligible. A depiction of the bridge definition is in Diagram 1 of Graphic 2. Jetties and boat ramps do not satisfy the definition of an eligible bridge as the deck is not suspended **between** abutments.

The Commission classifies bridges into four bridges types based on the bridge as an overall structure and reflecting the asset life of all of the bridge's components collectively. A bridge with all components constructed of concrete would be classified as Concrete, whereas a bridge with a mixture of materials used for the various bridge components, is treated as a hybrid bridge type (the Commission uses Other for this type of bridge).

The classification of bridges constructed of mixed materials as follows:

Bridges of Concrete & Timber combinations:	OTHER;
Bridges of Steel & Timber combinations:	OTHER;
Bridges of Steel & Concrete combinations:	CON; and
Bridge of Aluminium construction:	STL

3.2.2 Eligible culverts

For the purposes of the RPM, the Commission defines an eligible box or pipe culvert as one that has a minimum horizontal clear opening facing a waterway of 3 metres or greater. The clear opening is the total width of an individual pipe or section, or the sum of the diameters, where there is more than one section or pipe.

The clear waterway is the sum of the diameters of each culvert section. The bridge deck area (BDA) is calculated from the clear waterway times the culvert length. The Commission caps the maximum culvert length at 6 metres, which equates to the standard driving width of a dual lane road assumed by the Commission for rural sealed roads. An example of the application of this capping test is depicted in Diagram 2 of Graphic 2. Despite the culvert length in Diagram 2 of Graphic 2 being 7.5 metres, the BDA of this culvert would be capped, and calculated as 3.6m x 6.0m = 21.6m^2 for the purposes of the RPM.

The Commission recognises two types of culverts, Reinforced Concrete Pipe (RCP) and Reinforced Box Culvert (RBC). For the purposes of classifying culverts by culvert type for the RPM, metal pipe culverts are to be reported as RCP culverts. The Commission has adopted this classification following a 2017 survey of councils regarding the maintenance requirements of such culverts, which reported that the maintenance of steel culverts were similar to the annual asset preservation costs of RCP. Similarly, the Commission has determined that Helcore Culvert assets are to be reported as RBC.

The Commission does not apply any cost adjustors to its calculated bridge and culvert asset preservation needs.

GRAPHIC 2 DEMONSTRATION OF ELIGIBLE BRIDGE AND ELIGIBLE CULVERT CRITERIA USED IN THE ROAD PRESERVATION MODEL (RPM)

Diagram 1: Example of the application of the eligible bridge criteria

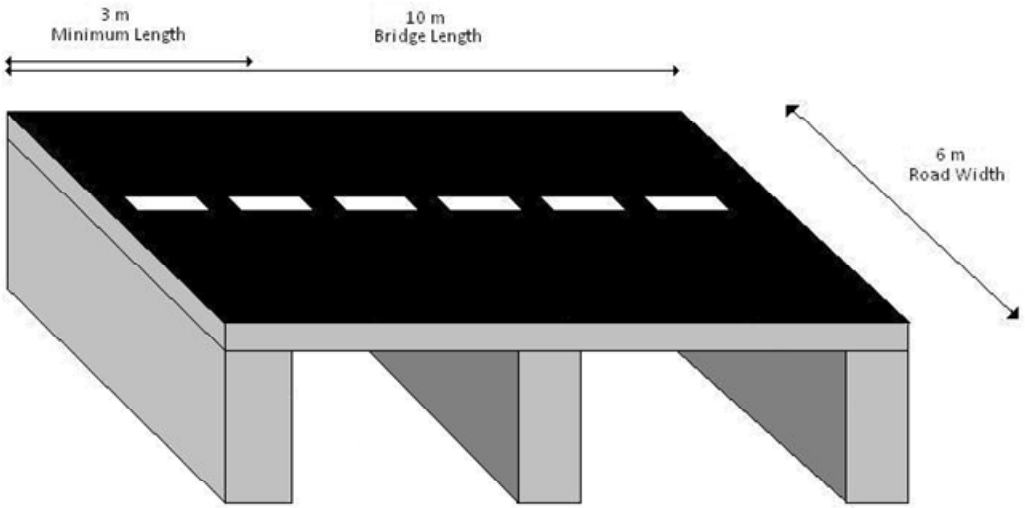
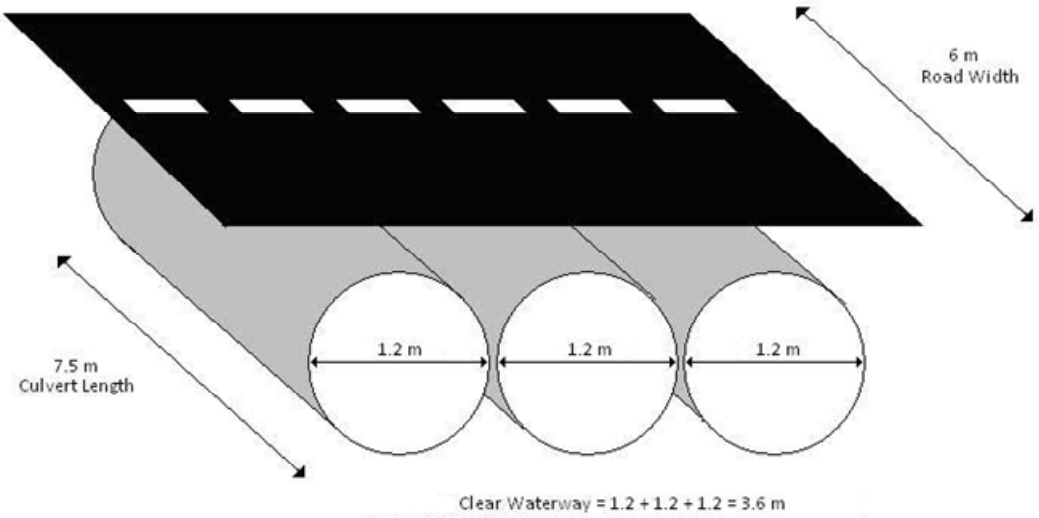


Diagram 2: Example of the application of the eligible culvert criteria



Attachment 1 – State Principles

General Concept Principles

- **No influence of Government policy**

The Commission will undertake its responsibilities in accordance with the National Principles, utilising its judgement where necessary (as outlined below), without being influenced by or influencing government policy, practices or desired outcomes.

The Commission may comment upon the impact of government policy on its deliberations, however will not attempt to influence that policy.

- **Due recognition of circumstances being faced in the year to which the grants relate**

The Commission follows an overarching objective of determining grants that best reflect, or take account of, the anticipated position or expected circumstances of a council in the year to which the grants relate.

If reforms are anticipated in an area affecting local government, for example, water and sewerage reforms, the Commission generally aims to consider the impact of these reforms and changed circumstances will have on councils. The Commission may exercise its broad judgement regarding if, and how, such matters may be recognised in its processes or modelling.

- **Data quality and sources**

The Commission takes the accuracy and consistency of data very seriously and actively seeks to increase the integrity of the data used within its assessments. The Commission has a strong preference for independent measures and data sources to inform its modelling, while being able to exercise broad judgement in its deliberations in relation to sources of data.

The Commission actively seeks to increase the integrity of the data used within the Commission's assessments and ensure its methods are contemporary and equitable across councils. The Commission may exercise its judgement and adopt alternative information sources where it considers such to be justified.

- **Methodology review cycle**

The commission implements methodology changes when it determines appropriate.

The Commission continuously monitors council practices with the objective of making its methods for distributing both the Base Grant and Road Grant funding both contemporarily and equitably across councils.

Any methodology changes are implemented following a structured process after considering all relevant matters and following a consultation process with councils.

- **Backcasting**

The Commission may on occasion apply the concept of backcasting which involves amending data for a chosen period to reflect a different profile.

Backcasting may be implemented, for example, when reforms are occurring in the future, such that the historical data is considered no longer an appropriate indicator of future circumstances of councils' position, or when an alternative or better data source is identified or becomes available. For example, when water and sewerage reforms resulted in the establishment of separate water entities, the reforms were backcast so as to remove the historical data relating to water and sewerage expenditure and revenues from the three years being averaged as the basis of the following year's grant outcomes.

The Commission has a general preference towards the principle of full backcasting when backcasting is applied. The Commission notes that it does need to be flexible in its approach and it will ultimately depend on the circumstances being considered.

- **Grant stability: collar[6] policy**

The Commission has a preference for managing and achieving grant stability through the application of 'caps' and 'floors' to the base grant outcomes.

The Commission understands that councils appreciate a degree of stability in their grant entitlements. While the Commission has no influence on the total amount that it is allocated by the Commonwealth for distribution, it is mindful of this desire for stability in its recommendations for distribution of the pool to Tasmanian councils.

The Commission manages this aspect through a process of comparing the current year's grant outcomes to the prior year's grant outcomes and then moderating the extremes of movement through a process of redistributing excessive movements amongst councils so as to limit the changes to within an acceptable margin. Applying a 'cap' limits the year on year increase while applying a 'floor' restricts any reduction in base grant recommendation compared to the previous year's recommendation.

Following the application of the collars, an iterative redistribution process is applied until all allocations comply with the change limitations.

Base Grant State Principles

- **Balanced Budget Model**

The Commission utilises a Base Grant Model based on. a "balanced budget" approach to calculate the distribution of the relative needs pool of funding.

Each council's relative needs grant entitlement is derived from the difference between the council's expenditure requirement that is necessary to provide services to a common standard with all other councils, and the council's revenue capacity based on the statewide average rate per dollar of assessed annual value (AAV) and other financial support.

[6] Collectively caps and floors are referred to as collars.

- **Three Year Average**

The Commission's financial model will generally adopt a three year average of Consolidated Data Collection (CDC) from the Local Government Division of the Department of Premier and Cabinet and other information on which to base its assessments.

For example, the 2015-16 grant allocation determination made in July 2015, and payable to councils in four instalments over the 2015-16 financial year, were based on data from CDC returns relating to the financial years: 2013-14, 2012-13 and 2011-12. The three year average approach is used to inform the likely position of councils and helps smooth out any significant year on year fluctuations that may exist in the individual year figures.

- **Revenue Capacity**

In determining revenue capacity and applying the National Principle of including Other Grant Funding, the Commission adopts the following principles for classifying revenues received by councils:

- *all revenues should be included in the base grant assessment, except where a case is made for its exclusion; and*

- *of the "included" revenues referred to above, revenues are treated as either:*

    - *included in the **Standardised Revenue** calculation if those revenues are within the scope of council's sphere of influence; or else*

    - *included as **Other Financial Support** (OFS) if those revenues and grants are received from sources where the council has no influence over what revenue or grant is derived.*

Grants that relate to capital expenditure are ignored for the purposes of the Commission's base grant methodology.

In determining OFS by Inclusion the Road Grants and Heavy Vehicle Motor Tax Revenue receipts used is the funding receipts that align with the CDC year of the revenues and expenditures informing the Commission's models i.e. the Commission maintains the nexus of the year of expenditure and the revenues and grant receipts.

- **Expenditure Requirement**
- **Cost Adjustor Range Factors**

The Commission takes into account a range of adjustments for factors that impact on council costs that may not be adequately recognised when considering average expenditure of councils.

These factors are referred to as cost adjustors and reflect the inherent relative cost advantages or disadvantages faced by councils in providing services. The Commission exercises broad judgement on the application of the cost adjustor by means of range factors to control the extent of adjustment that is provided to those councils that are assessed as disadvantaged and thus supported by adjustments from councils with a relative advantage.

The range factor may be determined as a percentage adjustment, or a limit that achieves a given value of adjustment.

- **Allowances**

The Commission exercises its judgement to adopt or modify any allowances where the Commission considers circumstances warrant special provisioning ought to be made and standardised expenditure does not adequately capture the cost of providing a service.

Currently the Commission applies two special allowances in the Base Grant Model – being a medical general practice allowance and an airport allowance.

- **Budget Result Term**

The Commission adopts a Base Grant Model that is designed to balance each council's standardised deficit to the amount which brings its revenues and expenditures into line with the funds available for distribution.

The Budget Result Term (BRT), first adopted for the 2004-05 grant recommendations, is the balancing item within the assessment that allows a balanced budget at a State level. The BRT is the difference between all statewide sources of revenue, including the grant pool, and all statewide expenditure requirements, and is distributed across councils on a per capita basis. This enables the impact of each individual cost adjustor, revenue, expenditure or allowance items adopted by the Commission, to be measured and assessed in terms of impact on final base grant outcomes for each council.

- **Base Grant stability: collar policy**

The Commission has generally limited the size of any increase in base grant movements for any council to no more that +15% in any one year.

The Commission generally regards a 10% decline in any base grant movements as being the maximum reduction for a council to sustain in any one year.

The Commission has determined that a 10% collar and 15% cap will apply to base grant recommendations until it determines otherwise.

Road Grant State Principles

- **Eligible roads**

The Commission applies an eligible road concept to road assets in order to determine if a road asset qualifies as a road for the purposes of the Road Preservation Model.

To be eligible, a road must form part of the state's road network and be managed by the relevant local council.

Fire trails are excluded from the definition of eligible roads as they are limited access roads and are not subject to the same degree of maintenance or expenditure as roads that are required to be provided to the general public. Similarly, reserves set aside for future roads are also excluded as they do not form part of the current road work used by general public vehicles or result in any significant current capital or maintenance demands on councils.

- **Allowances**

The Commission exercises its judgement to adopt or modify any allowances where the Commission considers circumstances warrant special provisioning ought to be made and standardised expenditure does not adequately capture the cost of providing a service.

The Road Grant model applies an urbanisation allowance based on certain roads considered to have exceptional asset preservation costs due to their urban usage.

- **Grant Stability: collar policy**

The Commission does not apply a collar to the year on year change in Road Grant outcomes.

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