

## Calculation of Road Grants

The Commonwealth national principle requires that this grant component be allocated for **asset preservation**.

To accord with this principle, and to ensure that the grant allocation reflects the mix of road and bridge assets maintained by councils, *road grants* are allocated as follows:

- **95%** - distributed based on the assessed road expenditure needs of a council as determined using the **Roads Preservation Model**
- **5%** - distributed based on council shares of statewide bridge deck areas

## Roads Preservation Model

The model uses standardised road profiles, costs and life expectancies to calculate the state average cost per kilometre for councils to maintain their road networks.

To ensure all roads maintained by councils are included in the assessment four road types are assessed: urban sealed, urban unsealed, rural sealed and rural unsealed.

Cost adjustors and an allowance are applied within the model to account for relative cost advantages or disadvantages faced by councils in maintaining roads.



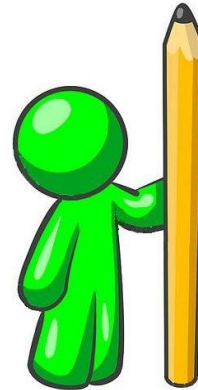
<b>Cost Adjustors</b>	- Rainfall - Terrain - Traffic - Remoteness
<b>Allowance</b>	- Urbanisation

The model calculates an assessed cost for each council to maintain its road network and the available funds are then distributed to councils based on their share of the total statewide cost to councils.

## Heavy Vehicle Motor Tax Revenue Distribution

The Commission bases its recommendations solely on the Freight Demander Survey collected by the Department of Infrastructure, Energy and Resources, which provides a tonne-kilometre measure indicating the tonnage of heavy freight and the distance over which it is carried on the local road network.

Council shares of total statewide tonne-kilometres are the basis for this distribution.



## Grant Stability

**Caps/Collars** - The current Commission policy is to constrain *Base Grant* allocations to prevent councils losing more than 10%, or gaining more than 15% from the previous distribution year. No Caps/Collars apply to any other grant component allocated by the Commission.

**Triennial Review Period** - Major methodological change is introduced only every 3 years to the Financial Assistance Grant allocations. Data updates and minor changes are introduced annually. The next distribution year to see major methodological change will be 2012-13.

## Contact

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Tasmania

State Grants Commission

# Overview of Functions and Methods

## Membership

Mr R C Close	Chairman;
Mr P R Williams	nominee of the Secretary of the Department of Treasury and Finance;
Mr B A Southorn PSM	representative of local government; and
Mr G H K Denny	representative of local government.

## Purpose

The Commission is a statutory authority established by the *State Grants Commission Act 1976*. The Commission is responsible for making recommendations to the Treasurer concerning the distribution of Commonwealth **Financial Assistance Grants (FAGs)** and State **Heavy Vehicle Motor Tax Revenue** to local government.



## Source of Funds

**Financial Assistance Grants** - The Commonwealth *Local Government Financial Assistance Act 1995* stipulates the method for determining the total national grant pool, the principles for allocating the funds to each state and the conditions governing the payment of funds to the states for distribution to local government.

In 2009-10, the national grant pool is over \$1.9 billion (Tasmania receives \$62 million). This amount is divided into a **base grant** (\$30.9m) and a **road grant** (\$31.5m).

**Heavy Vehicle Motor Tax Revenue** - Since 1996-97 the State Government has allocated \$1.5m to local councils in lieu of council road tolls that were abolished.

**All funds are untied**, so councils are free to determine their own spending priorities.

## National Principles

The Commonwealth provides principles to guide the allocation of the Financial Assistance Grants. The *base grant* is split into a **per capita pool** (30% of total) and **relative needs pool** (70% of total).

There are three key principles for the distribution of the *base grant*.

- **Horizontal Fiscal Equalisation** - grants recommended on the basis of **relative need**.
- **Effort Neutrality** - policies of individual councils, in terms of actual expenditure and revenue effort, **will not** affect the grant determination.
- **Minimum Grant** - no council will receive less than its **per capita share** calculated from 30% of the base grant pool provided to each state.



## Calculation of Base Grants

The equalisation model used uses a 'balanced budget' approach, whereby the grant entitlement of a council is calculated according to the difference between its estimated **expenditure requirement** and its assessed **revenue capacity**. The basic equalisation calculation is:

Expenditure Requirement	Less	Revenue Capacity	=	Standardised Deficit
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- **Expenditure Requirement** - is calculated as follows:
  - ⇒ a 3 year average of the expenditure 'required' to provide a common range of services (standardised expenditure); plus
  - ⇒ any allowances for additional support provided by councils for either GP's or airports; plus
  - ⇒ the 'Budget Result Term' which enables a balanced budget at a state level.

Standardised expenditure is calculated by following the steps below:

- Total actual statewide expenditure for each category;
- Share the actual expenditure between councils on a per capita basis (standard expenditure); then
- Apply cost adjustors to reflect the inherent relative cost advantages or disadvantages faced by councils in providing services.

Cost Adjustors		Absentee Population	
Climate	Dispersion	Isolation	
Population Decline		Regional Responsibility	
Scale (Admin)		Scale (Other)	
Tourism	Unemployment	Worker Influx	

- **Revenue Capacity** - calculated using 3 year averages of:
  - ⇒ the revenue a council would raise by applying the statewide average rate in the dollar to all rateable property in its area (standardised revenue)
  - ⇒ the council's per capita grant allocation; and
  - ⇒ certain Other Grant Support payments.
- **Standardised Deficit**
  - ⇒ a council with a **positive deficit will receive a share of the relative needs pool** according to its share of the overall positive deficit.
  - ⇒ A council with a **negative deficit does not receive a share of the relative needs pool** as it has a surplus of assessed revenue over assessed expenditure (minimum grant council).

