

Fact Sheet FS-003: Cost Adjustor Impacts

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 determining the allocation of funding that is provided by the Australian Government for Tasmanian councils. This Local Government funding program, known as the Local Government Financial Assistance Grants (FA Grants) is provided as two funding pools: the General Purpose/Base Grant funding pool and the Identified Local Roads/Road Grant funding pool.

The primary principle that the Commission is required to consider when determining the distribution of the FA Grant funding is horizontal fiscal equalisation (HFE). HFE is a reference to the allocation of funds in a manner that:

- ensures that each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State; and
- takes account of differences in the expenditure required to be incurred by local governing bodies in the performance of their functions and in their capacity to raise revenue.

For the distribution of the Road Grant funding, the principle the Commission is required to apply is the relative need of each council 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.

Cost Adjustors

The Commission strives to take account of inherent advantages and disadvantages of each council through the application of cost adjustors designed to recognise specific challenges faced by councils.

The Commission uses Cost Adjustors in both the Commission's Base Grant Model and its Road Preservation Model.

The Base Grant Model (BGM) process:

In the BGM, the starting point in the process is calculating the Average expenditure for each council. This is done by calculating the per capita expenditure on a statewide basis by summing all councils' expenditure¹ for each category and dividing the total by the state's population. Each council's average expenditure is then calculated by multiplying each council's population by the average per capita expenditure rate. Cost adjustors then modify the average expenditure calculation based on an index or measure that the Commission has determined as an appropriate indicator of the particular issue. Cost adjustors are not applied to what a council actually spends, they are applied to the average expenditure as calculated by the Commission.

The Commission's BGM currently has 11 cost adjustors:

Base Grant Model Cost Adjustors

- Absentee Population
- Climate
- Dispersion
- Isolation
- Population Decline
- Regional Responsibility
- Scale (Administration)
- Scale (Other)
- Tourism
- Socio-Economic Indicator For Areas (SEIFA) (Index of Relative Disadvantage (IRSD))
- Worker Influx

For the BGM, each cost adjustor redistributes a portion of expenditure across all councils based on the index of relative disadvantage. This results in a council being assessed as being disadvantaged due to certain inherent aspects that it cannot control and which make it inherently more expensive to deliver services than other councils. Ultimately these result in the Commission recognising those disadvantaged councils' having a greater expenditure requirement than they otherwise would have had, and therefore, all other things being equal, having a greater relative need for financial assistance than those councils that experience advantages in that area.

¹ Expenditure used is a net figure after taking account of other current financial support and grants a council receives.

Each Base Grant cost adjustor redistributes expenditure from councils that are relatively advantaged on the relative measure towards those councils that experience a greater disadvantage.

The BGM cost adjustors are applied to expenditure categories² according to how each issue being assessed is understood to affect council expenditure requirements. The current BGM cost adjustors are applied to the per capita council expenditure according to the following matrix:

Expenditure category/Cost Adjustor	General Administration	Health, Housing and Welfare	Law, Order and Public Safety	Planning and Community Amenities	Waste Management and Environment	Recreation and Culture	Other
Absentee Population	✓			✓	✓	✓	
Climate				✓	✓	✓	
Dispersion			✓	✓	✓	✓	
Isolation	✓			✓		✓	
Population Decline	✓	✓	✓	✓	✓	✓	
Regional Responsibility						✓	
Scale (Administration)	✓						
Scale (Other)				✓	✓	✓	
Tourism			✓	✓	✓	✓	
SEIFA (IRSD)				✓			
Worker Influx				✓	✓	✓	

² For information on the expenditure categories the Commission uses, please refer to Section 2.2 of the State Grants Commission's [Financial Assistance Grants Distribution Methodology](#) paper.

For the 2020–21 FA Grant distributions, the Base Grant Cost Adjustor expenditure redistributive effect and the most and least disadvantaged per capita impact for each cost adjustor were as follows:

Base Grant Model Cost Adjustors	Total Expenditure Redistributive Effect	Impact for most affected council	Most Affected/Highest ranked Council per capita effect \$	Least Affected/Lowest ranked Council per capita effect \$
Absentee Population	6 128 543	+577 605	271.18	-35.67
Climate	229 262	+229 262	54.91	-0.43
Dispersion	4 881 461	+520 529	113.11	-23.75
Isolation	3 039 122	+299 198	185.84	-14.85
Population Decline	334 453	+69 862	32.80	-0.65
Regional Responsibility	6 470 166	+5 863 444	86.22	-24.80
Scale (Administration)	13 786 238	+515 797	510.69	-62.43
Scale (Other)	7 368 779	+275 695	272.96	-33.37
Tourism	1 101 619	+226 156	49.14	-6.48
SEIFA (IRSD)	966 661	+58 162	8.35	-6.90
Worker Influx	2 312 632	+1 768 313	32.36	-12.32
Total	28 001 526 (\$52.39 per capita)	+986 577	976.81	-130.40

The above table shows the expenditure redistribution impact and not the grant outcome impact for councils. As the Base Grant funding pool is insufficient to fully fund the assessed deficits of all councils, the grant outcome impacts of the above cost adjustors is only a proportion of the effects outlined above.

The Road Preservation Model (RPM) process

The Commission's RPM currently has four cost adjustors

Road Preservation Model Cost Adjustors

- Rainfall
- Terrain
- Traffic
- Remoteness

The Commission's RPM calculates each council's total road asset preservation needs, The RPM's road asset preservation need is calculated based on a standard unit rate for each road road type. The Commission uses three road types: urban sealed, rural sealed and unsealed. The Commission's standard assessment of each council's total road asset preservation need is calculated by multiplying each council's reported road length by road type by the standard unit rate for that road type. The RPM cost adjustors then modify the Commission's standard assessment of that council's total road asset preservation needs based on the relative disadvantages or advantages of that council's road network circumstances. While the Commission includes bridge and major culvert assets in the calculation of the total road network preservation needs, RPM cost adjustors only apply to the road preservation portion of the road network assessment³,

The Rainfall and Traffic RPM cost adjustors recognise both relative advantages and disadvantages, which can either result in an increase or decrease in the asset preservation assessment for a council whereas the Terrain and Remoteness cost adjustors recognise relative disadvantages, which only result in an increase in the asset preservation assessment for the council's road length by road type.

Bridges and major culverts currently represent 5.1 per cent of the assessed asset preservation need.

For the 2020-21 FA Grant distributions, the Road Grant Cost adjustor redistributive effect were as follows:

Road Preservation Model Cost Adjustors	Sum Redistributed \$
Rainfall	2 348 224
Terrain	3 100 212
Traffic	2 954 453
Remoteness	5 277 124

³ Bridges and major culverts currently represent 5.1 per cent of the assessed asset preservation need.

Further Information:

The information provided above is general in nature and reflects the Commission's methodology as at 3 December 2020.

For further explanation of the Commission's methodology or feedback on this Fact Sheet, please contact the Commission at sgc@treasury.tas.gov.au.