State Grants Commission

Financial Assistance Grant Distribution Methodology

July 2024

STATE GRANTS COMMISSION

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Contents

1. Introduction

This report sets out the methodology that will be used by the State Grants Commission when making recommendations for the distribution of Australian Government Financial Assistance Grants for the 2025-26 financial year.

Further information on data used by the Commission well as some of the key results generated by the distribution model in prior years can be accessed from the Data Tables available on the Commission's website at www.treasury.tas.gov.au/state-grants-commission.

2. Legislation governing the Financial Assistance Grants

Two pools of funding are provided annually by the Australian Government to all state and territories (states), which are collectively referred to as Financial Assistance Grants (FA Grants). These are the General Purpose (Base Grant) and the Identified Local Road (Road Grant) funding pools.

The Australian Government *Local Government (Financial Assistance) Act 1995*:

- prescribes the conditions that must be fulfilled for the states to receive the FA Grant funds; and
- requires the application of a set of National Principles governing their distribution among local governing bodies.

The objectives of the grants are to improve:

(a) the financial capacity of local governing bodies;

(b) the capacity of local governing bodies to provide their residents with an equitable level of services;

(c) the certainty of funding for local governing bodies;

(d) the efficiency and effectiveness of local governing bodies; and

(e) the provision by local governing bodies of services to Aboriginal and Torres Strait Islander communities.

The national Base Grant pool is distributed to states 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 based on historically agreed shares.

2.1 Preconditions for receipt of Financial Assistance Grant funding

The Local Government Financial Assistance Act requires each jurisdiction to establish a local government grants commission, the membership of which must include two persons associated with local government. The *State Grants Commission Act 1976 (Tasmania)* establishes the State Grants 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 the 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 National 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 the proposed distributions provided 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. However, the Act does allow the actual distribution to be different from the proposed distribution, if the altered distribution is agreed between the State Minister and the Australian Government.

2.2 National Principles

The National Principles have been issued by the Australian Government following 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 is a basis that ensures each local governing body in the State or 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 or Territory. 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, that policies of individual local governing bodies in terms of expenditure and revenue effort will not affect 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 or 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, which 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 on the basis of the relative needs of each local governing body for roads expenditure and 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.

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.

As the Local Government Financial Assistance Act and National Principle 3 specify the minimum grant to any local governing body, based on population share, this constrains the extent to which the HFE principle can be applied.

In summary, the other Base Grant principles are:

- the need for a policy neutral approach regarding expenditure and revenue-raising effort 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
- equitable treatment for amalgamating municipalities.

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

The Commonwealth Grants Commission has 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), both of which have been published.

A review of intrastate distribution principles was also undertaken by the Commonwealth Grants Commission in 2013 at the request of the then Australian Government Treasurer. The final report was submitted to the Australian Government in December 2013 but has not been publicly released.

2.3 State Principles

In addition to the National Principles, the Commission 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 are detailed in Attachment 1.

3. Base Grant distribution

3.1 Direct Assessment Approach

The Commission applies the Direct Assessment approach to allocating the Base Grant, which involves the following two-step process:

- Firstly, it calculates the Base Grant on a needs-basis, taking into account a complex range of drivers that define and differentiate councils. The methodology considers the revenue and expenditure of each council compared with the average state-wide levels, including the costs of providing a common range of services.
- Secondly, the Base Grant funding allocated to each council is adjusted, such that the minimum grant National Principle is applied.

The minimum grant National Principle states that the Base Grant allocation to a council in a year will not be less than the amount to which the local governing body would be entitled to if 30 per cent of the total amount of the Base Grant funding available were allocated on a per capita basis.

Accordingly, councils that are assessed as having sufficient financial capacity to meet their expenditure needs following the needs-based assessment have their base funding adjusted in line with this National Principle. These councils are referred to as minimum grant councils.

3.2 Relative Needs Assessment

The difference between each council's revenue capacity and expenditure requirement determines each council's relative needs requirement and the extent to which each council receives a share of Base Grant.

Revenue capacity for a council comprises:

- the revenue that council could raise if it applied a 'state-wide average rate in the dollar' to all rateable property in its area. The 'state-wide average rate in the dollar' is calculated based on the most recent Assessed Annual Value (AAV) estimates for all municipalities provided by the Valuer-General and the total level of actual annual revenue raised by all councils for providing a common range of services (refer section 3.3.1); plus
- other financial support (OFS) revenue that meets the criteria for inclusion (refer section 3.3.2); plus
- that council's per capita grant allocation as if it were a minimum grant council (refer section 3.3.3).

A council's expenditure requirement comprises:

- the estimated cost of providing a common range of services in that municipality (standardised expenditure), and road expenditure (refer section 3.4.1); plus
- any additional allowances provided to councils for council-supported medical practices or airports (refer section 3.4.4); plus
- a Budget Result Term (BRT) allowance, which is a hypothetical positive or negative allowance. The Commission calculates the actual aggregate net deficit or surplus of all

councils for providing the common services, including the relative needs component of the Base Grant and all state-wide sources of revenue. This is then allocated across councils on a per capita basis so that, at a state level, the budget of councils is balanced.

Councils that are assessed as having a surplus are regarded as having sufficient capability to function, by reasonable effort, at a standard not lower than the average of other Tasmanian councils. The recommendation for these councils is therefore the minimum grant.

The remaining councils have assessed deficits, which indicates that these councils do not have sufficient capability to function, by reasonable effort, at a standard not lower than the average standard of other Tasmanian councils and therefore require additional support.

The deficits of these councils are aggregated. The remaining Base Grant, after the grants to the minimum grant councils have been taken into account, is then allocated among these councils in proportion to their share of the deficit.

These concepts are further outlined below.

3.3 Revenue Capacity

For the purposes of determining the annual revenue capacity of councils Base Grant, 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;
- those revenues that are within the scope of council's sphere of influence are included in the standardised revenue calculation; and
- those revenues and grants that are received from sources where the council has no influence over what revenue or grant is received are included as other financial support (OFS).

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

3.3.1 Calculation of standardised revenue

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

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 fees);

- total interest received;
- recurrent revenue not elsewhere classified); and
- profit on sale of assets.[1]

The Commission currently excludes car parking revenue as, while it can be a significant revenue source, is not available to all councils. Equally, the Commission excludes car parking expenditure (including depreciation) from roads expenditure.

All revenue categories other than general rates are unrelated to councils' total AAV. However, as general rates account for most of the revenue, all revenue sources are treated as if they are AAV-related.

The Commission calculates each council's standardised revenue by applying the 'state-wide average rate in the dollar' to all rateable property in its area in accordance with the formulas as shown in Table 1:

Table 1: Base Grant Assessment: Standardised revenue calculation

The state-wide average rate in the dollar is calculated using the following formula:

State-wide average rate in the dollar = State total of councils' revenues/state total of Adjusted AAV

Standardised revenue for each council is calculated as follows:

Standardised revenue = State-wide average rate in the dollar x council total of rateable property

The rateable property for each council is determined as:

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

(b) fully exempt properties; plus

(c) partially exempt AAV for each municipality.

A three-year average of each council's standardised revenue is then used in the Commission's calculation of revenue capacity.

3.3.2 Other Financial Support (OFS)

The National Principles require the Commission to include the receipt of grant funding in its deliberations for grant recommendations. 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 under either:

- the 'inclusion' approach which treats the funding as additional revenue; or
- the 'deduction' approach where the funding offsets the relevant expenditure.

[1] The Commission also undertakes a review of the 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 state-wide context, the Commission may choose to adjust for the transaction in its revenue estimate.

3.3.2.1 OFS by Inclusion

The Commission uses the following criteria 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 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 under the inclusion approach:

- State Heavy Vehicle Motor Tax Revenue (HVMTR);
- Road grants as a component of the Financial Assistance Grants;
- Australian Government Roads to Recovery (R2R) payments; and
- financial returns from TasWater.

Receipts are taken to be received by councils on an actuals basis and are therefore excluded from the the state revenue total used in the standardised revenue calculation.

3.3.2.2 OFS by Deduction

The Commission uses the following criteria 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 Australian 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.

The net expenditure is included in the state expenditure total used in the standardised expenditure calculation (refer section 3.3).

3.3.3 Minimum Grant

The Commission includes a three-year average of the minimum grant, i.e. the per capita grant each council would receive if it received the minimum grant only, in determining revenue capacity.

3.4 Expenditure Requirement

3.4.1 Adjusted expenditure (non-roads expenditure)

The Commission applies the principle that the cost of providing council services varies in proportion to its service population (refer to section 3.3.2). Therefore, standardised expenditure is calculated for each expenditure category, except for roads, as follows:

I. identify each council's actual expenditure, net of any operational OFS receipts that meet the criteria for recognition as OFS by deduction, in accordance with the requirement to apply the Other Grant Support (National Principle 4);

II. sum the net council expenditure to determine the total state-wide expenditure;

III. allocate the total state-wide expenditure between all councils based on the service population; and

IV. apply cost adjustors (refer to section 3.2.3) to each council's allocated expenditure to reflect unavoidable cost advantages/disadvantages faced by individual councils in providing services.

The Commission calculates the state total of council expenditure by summing each council's actual expenditure as reported in the CDC return. Table 2 details the Commission's expenditure categories, which combines the expenditure functions reported by councils in the CDC return:

Table 2: Base Grant Assessment: Description of Expenditure Categories

Commission Expenditure Categories	Expenditure functions (reported in CDC return)
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	Transport and communications

3.4.2 Service Population

The service population approach to calculating the average level of expenditure for each council was introduced after the Commission had completed its review of the Financial Assistance Base Grant Methodology. The Commission had previously based councils' expenditure requirements on the number of residents in each municipality, as estimated by the Australian Bureau of Statistics (ABS).

The Commission considers service population to be a more reliable basis to accurately reflect the costs incurred by councils in providing services as it includes both residents and owners of properties who may live in the municipality for less half the year, who would otherwise be excluded under the ABS' definition of resident. This is achieved by adding a population loading to the estimated resident population for persons who are not residents in the dwelling they occupy. Under the Commission's methodology, these occupants are referred to as 'non-residents' and the adjusted population base is referred to as the 'service population'. Further details on how the service population has been calculated can be found in Commission Decision CD24-01 - 'Review of Financial Assistance Base Grant Methodology'.

Given that non-residents may only occupy the relevant dwelling for part of the year and may not demand services at the same level as residents, the Commission has set the costs of providing services to non-residents at less than those for residents, depending on the type of expenditure. The cost scale applied to non-residents is shown in Table 3:

Table 3: Base Grant Assessment: Cost scale for non-residents

Commission Expenditure Categories	Cost scale for non-residents (per cent)*
General administration	25
Health, housing and welfare	0
Law, order and public safety	0
Planning and community amenities	25
Recreation and culture	33.33 (or 1/3)
Roads	0
Waste management and the environment	66.67 or (2/3)
Other	0

*Relative to the costs applied to residents

3.4.3. Application of council-specific cost adjustors

Cost adjustors are 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. Cost adjusters are determined such that their net overall impact on costs for any expenditure category, across all councils, is zero.

The following cost adjustors are recognised by the Commission:

Climate	Scale (Administration)
Dispersion	Scale (Other)
Isolation	Worker Influx
Socio-Economic Indexes for Areas (SEIFA) - Index of Relative Socio-economic Disadvantage (IRSD)	Service Industry Employment (SIE)

The application of cost adjustors to each expenditure category is detailed in Table 4:

Table 4: Base Grant Assessment: Allocation of Cost Adjustors to Expenditure Categories

Expenditure Function*	**Cost Adjustors***
General administration	Scale (administration) Isolation
Health, housing & welfare	No cost adjustors and applied
Law, order & public safety	Dispersion
Planning & community amenities	Scale (other) Dispersion Climate Isolation SEIFA (IRSD) Worker Influx
Recreation & culture	Scale (other) Dispersion Climate Isolation SEIFA (IRSD) Worker Influx
Roads	No cost adjustors are applied
Waste management & environment	Scale (other) Dispersion Climate Worker Influx
Other	No cost adjustors are applied

An outline of the approach used to quantify each of the cost adjustors is provided below. Further information on the cost adjutor weighting applied to each council can be found in the annual Financial Assistance Grant Data Tables available on the Commission's website at www.treasury.tas.gov.au/state-grants-commission/publications.

(i) 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.

(ii) 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.

(iii) 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 5.

Table 5: 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.

(iv) 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.

(v) 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 in major cities employment in services reaches very high levels but many of these services are not consumed by non-residents of the municipality.

(vi) Socio-Economic Indexes 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 Indexes For Areas (SEIFA) Index of Relative Socio-Economic Disadvantage (IRSD). The IRSD is a general socio-economic index that summarises a range of information about the economic and social conditions of residents within an area.

(vii) 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 but they impose additional council costs.

Determination of this cost adjustor involves estimating, from the most recent Census data that is available, 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.

3.4.4 Allocation of Expenditure Allowances

Expenditure allowances are included in the calculation of some councils' 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 allowances, which apply to certain councils only, are currently used by the Commission when making its annual determinations: the medical general practice allowance and the airport allowance.

The medical general practice allowance recognises 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 these 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 www.treasury.tas.gov.au/state-grants-commission/methodology.

3.4.5 Calculation of roads expenditure

Roads expenditure for each council is calculated by multiplying a council's share of the State's Road Grant distribution by the State's total road expenditure for each base year.

The Commission uses an asset preservation model to calculate a council's share of the Road Grant. This model, known as the Roads Preservation Model, is described in detail in Section 4. The model applies several road related cost adjustors.

The Commission excludes car parking expenditure from total road expenditure for those councils operating off-road and multi-level car parks before determining adjusted road expenditure and Road Grant entitlements. As noted above, car park receipts are also excluded.

4. Road Grant distribution

The Commission estimates the annualised cost for preserving council road, bridge and culvert assets.

The following three road types are used by the Commission to categorise roads in Tasmania[2]:

- urban sealed - comprises sealed roads that are within city or town boundaries;
- rural sealed - comprises sealed roads that are outside city or town boundaries; and
- unsealed roads - comprises all unsealed roads.

The Commission does not prescribe dimensions for the three road categories. Annual preservation cost estimates are applied to the three road categories to calculate the cost for councils to maintain their road networks.

The Commission assumes that all bridges and culverts are constructed from concrete regardless of the type of material used, while also applying a single preservation rate to these assets.

Councils report road lengths and bridge and culverts under the CDC return process.

Cost adjustors and allowances are applied to account for relative cost advantages or disadvantages faced by councils in maintaining their roads. The road cost adjustors are rainfall, terrain, traffic and remoteness. An urbanisation allowance is also applied to eligible road lengths in recognised urban areas. There is also an allowance to recognise additional costs in respect of the road network on Bruny Island. The Commission does not apply any cost adjustors to its standard bridge or culvert asset preservation costs.

The Commission estimates the assessed annualised cost for each council to preserve its road network. These costs are then aggregated. The grant recommendations are calculated such that each council's share of the road funding pool is equal to its share of the aggregated road costs.

These concepts are further outlined below.

4.1 Determination of the Road Preservation Costs

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 roads for the purposes of the RPM.

For the 2024-25 Road Grant recommendations, the Commission applied the following cost estimates to the three road categories[3]. The rates are deemed to include all costs associated with preserving roads, including traffic management costs:

[2] The definitions for urban sealed, rural sealed and unsealed roads as described above will apply from the 2025-26 financial year.

[3] For the 2024-25 Recommendations, the Commission used the standard road profiles as outlined in its November 2024 Methodological Paper to define the three road categories, which are different to those that that will apply from 2025-26.

Road category	$/km
Urban sealed	25 474
Rural sealed	14 657
Unsealed	9 687

The Commission has adopted road preservation rates and annual indexation method recommended by the consultant in its June 2024 report, which can be found on the Commission's website at www.treasury.tas.gov.au/state-grants-commission/methodology.

4.1.1 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 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 cost.

Although most councils 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, 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. Roads 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 costs councils face in maintaining and servicing these roads. Final calculated road lengths are then assessed within the RPM.

The Urbanisation Allowance Checklist is available on the Commission's website at www.treasury.tas.gov.au/state-grants-commission/methodology.

4.1.2 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 roads. This is reflected in the Kingborough Council's unadjusted asset preservation cost.

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

4.1.3 Application of council-specific cost adjustors

By applying the cost estimates to each council's reported road lengths for the three categories (Urban sealed, Rural sealed and Unsealed) and applying the urbanisation allowance, annual unadjusted road expenditure is then 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 applies four cost adjustors, relating to 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 Natural Resources and Environment Tasmania (DNR). 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 and are shown in Table 6.

Table 6: Road Grant Assessment: Cost Factors for Rainfall Cost Adjustors

Annual 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

Low annual rainfall (less than 600 mm) 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 annual rainfall (greater than 1000 mm) 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 GIS operated by DNR. 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 7.

Table 7: 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 of greater than 9.0 degrees of slope due to 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.

For flat terrain (less than 0.5 degrees of slope), disadvantages include problems with surface drainage, groundwater management and localised flooding resulting in pavement break-up.

(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 Financial Assistance Grant Data Tables publication each year.

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

The upper and lower cost adjustor limits applied to each road category is shown in Table 8:

Table 8: 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 larger 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 Islands.

The central road network locations, selected regional centre and measured distances for each council are shown in Table 9.

Table 9: 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 the dispersion cost adjustor used in the Base Grant assessment. 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 the Commission's estimate of the amount councils would need to spend annually to preserve their road assets.

4.2 Determination of the Bridge and Culvert Preservation Costs

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 with a span of less than 3 metres are ineligible. Jetties and boat ramps do not satisfy the definition of an eligible bridge as the deck is not suspended between abutments.

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 more. 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 Commission assumes that all bridges and culverts are constructed from concrete regardless of the type of material used. For the 2024-25 Road Grant recommendations, the Commission applied the following preservation rate to these assets:

Bridge and culvert type	$/per metre2
Concrete	71.70

The Commission has adopted preservation rate and annual indexation method recommended by the consultant in its June 2024 report, which can be found on the Commission's website at www.treasury.tas.gov.au/state-grants-commission/methodology.

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

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: cap and floor 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 Australian Government 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 state-wide average rate per dollar of assessed annual value (AAV) and other financial support.

- **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 2024-25 grant allocation determination made in July 2024, were based on data from CDC returns relating to the financial years: 2022-23, 2021-22 and 2020-21. 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.

- **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 state-wide sources of revenue, including the grant pool, and all state-wide 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: cap and floor policy**

For 2024-25, the Commission reduced the cap from +17 to +10 per cent and reduced the floor from +7 to -5 per cent. The reductions are due to the base grant increasing by less than for last year due to lower inflation and Tasmania's lower population growth.

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: cap and floor policy**

The Commission does not apply any caps or floors to annual changes in Road Grant outcomes.

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