

Membership

Mr D C Hudson	Chairman and nominee of the Secretary of the Department of Treasury and Finance;
Mr G J Preece	Representative of local government; and
Mr R A Fraser	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** and State **Heavy Vehicle Motor Tax Revenue** to Tasmanian local councils.



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.

Heavy Vehicle Motor Tax Revenue – since 1996-97 the State Government has allocated funding each year to local councils in lieu of council road tolls that were abolished.

Both sources of funds are untied when received by councils, so councils are free to determine their own spending priorities.

National Principles

The Commonwealth provides principles to guide all local government grants commissions in the allocation of the Financial Assistance Grants.

The three key principles for the distribution of the Base Grant are:

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



Calculation of Base Grant entitlements

The assessment model uses a 'balanced budget' approach, whereby the grant entitlement of a council is calculated according to the difference between expenditure requirement and revenue capacity as calculated by the Commission. The basic equalisation calculation is:

Revenue Capacity	Less	Expenditure Requirement	=	Standardised Surplus/Deficit
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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 its rateable property (standardised revenue); **plus**
- the council's per capita grant allocation; **plus**
- certain Other Financial Support payments.

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 practices or airports; **plus**
- the Budget Result Term which enables a balanced budget at a state level.

Standardised Expenditure is calculated as follows:

- calculate total statewide spending for each expenditure category;
- allocate the total expenditure across councils on a per capita basis (standard expenditure); then
- apply cost adjustors to standard expenditure to reflect inherent cost advantages/disadvantages faced by individual councils in providing services.

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

Standardised Surplus/Deficit

- **Standardised Deficit** – expenditure requirement exceeds revenue capacity. A council will **receive a share of the relative needs pool** according to its share of the total statewide deficit.
- **Standardised Surplus** – revenue capacity exceeds expenditure requirement. A council **will not receive a share of the relative needs pool**, but will still be entitled to its population share of the per capita pool.



Calculation of Road Grant entitlements

The Commonwealth national principle requires that road grants be allocated according to **asset preservation needs**.

The Road Grant is proportionally allocated according to council shares of the modelled cost of asset preservation of both road assets and bridge and culvert assets in the State. Councils update road and bridge asset data annually.

Road Preservation Model

The RPM uses dimensions of the average Tasmanian road, as well as average costs and maintenance schedules to calculate the state average cost/km per annum for councils to maintain their road networks.

Three road types are used within the RPM to determine the road portion of the asset preservation cost. These are urban sealed, rural sealed and unsealed. Four types of bridges and two types of culverts are also used to determine the bridge portion of the RPM asset preservation cost.

Cost adjustors and an allowance are applied to the road portion of the RPM to account for relative cost advantages or disadvantages faced by councils in maintaining roads.



Cost Adjustors – Rainfall

- Terrain
- Traffic
- Remoteness

Allowance

- Urbanisation

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

Grant Stability

Caps/Collars – the Commission is aware of councils' preference for grant stability. In finalising the Base Grant allocations each year the Commission applies a 15% cap (to prevent councils grant increasing by more than 15% annually), and a 10% collar (to prevent councils grants decreasing by more than 10% annually).

Caps and collars are not used in the RPM.

Triennial Reviews – The Commission continuously reviews its methodologies and processes. Major changes to the Financial Assistance Grant assessment methods are introduced only every three years. Data updates and minor methodology changes are applied annually.



Heavy Vehicle Motor Tax Revenue

The Commission bases its Heavy Vehicle Motor Tax Revenue recommendations solely on each council's share of the heavy vehicle freight task measure (tonnage of heavy freight divided by the distance over which it is carried on the local road network) as per the most recent Tasmanian Freight Survey. The TFS is typically conducted by the Department of State Growth every three years.

Contact

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State Grants Commission

Overview of Functions and Methods

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