GOVERNMENT OF WESTERN AUSTRALIA

Department of
Local Government, Sport and Cultural Industries

Methodology for the Distribution of Commonwealth Financial Assistance Grants to Local Governments in Western Australian

WA Local Government Grants Commission

September 2023

Contents

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Foreword

The WA Local Government Grants Commission (the Commission) has completed its latest iteration of the Methodology and Principles handbook, updated to reflect the current methodology.

The Commission has produced this guide to assist local governments in understanding how the different components of their Financial Assistance Grants are calculated.

The Commission aims to update this document as required, however changes to the methodology can be found in the Commission's Annual Report between iterations.

The Road Grant methodology remains unchanged, given the wide acceptance of the Asset Preservation Model. The Commission has made additional information relating to the road calculations available through its website to increase transparency and sector understanding of the grant allocations.

Achieving a balanced and fair methodology is a challenging task given Western Australia's varied location, geography and demographics across 137 local governments. However, the Commission is confident it has a methodology that equitably allocates Financial Assistance Grants and adheres to the horizontal equalisation principle.

The Commission is receptive to and encourages local governments to make submissions if they believe there are unique circumstances that are not recognised or if there is an area that should receive a greater focus.

I encourage you to contact the staff of the Commission for advice on any of the information contained in this guide.

Cr Dan Bull

CHAIRPERSON
WA LOCAL GOVERNMENT GRANTS COMMISSION

Commissioners as at August 2023

Cr Daniel Bull (Chairperson)
Mr Luke Stevens (Deputy Chairperson)
Mr Colin Cameron (Metropolitan Member)
Dr Wendy Giles (Country Urban Member)
Ms Melinda Prinsloo (Country Rural Member)

Deputy Commissioners

VACANT (Deputy to the Deputy Chairperson)
Cr David Goode (Deputy Metropolitan Member)
Ms Virginia Miltrup (Deputy Country Urban Member)
Cr Chris Mitchell (Deputy Country Rural Member)

Officers

Mrs Leah Horton – Manager, Board Governance and Reporting
Mrs Kathryn Christidis – Senior Strategy and Research Officer
Mr Nicholas Harmer – Strategy and Research Officer
Dr Chris Berry – Roads Consultant

General Purpose Grants Methodology

The Balanced Budget methodology used by the Commission for calculating General Purpose Grants has been in place since the 1980s, albeit with numerous modifications to the existing standards and cost adjustors arising from a major review in 1994 and subsequent changes. In 2008, the Commission decided that the appropriate means of addressing issues raised by local governments was to undertake a comprehensive review of the methodology. The primary objectives of the review were to simplify the methodology and introduce a greater degree of transparency as part of the grants determination process.

A number of unfavourable equalisation trends were identified in the old methodology and the Commission considered that these needed to be addressed. It was recognised that the functions and circumstances of local governments have changed significantly over the years and a new methodology was needed to reflect these changes. The Commission targeted simplification of the methodology and also the need to use accurate and timely data for calculating the General Purpose Grants. The Commission decided that the new methodology would place greater emphasis on growth, location and socio-economic disadvantage. The review was completed in time for the 2012-13 grant determinations. The methodology in its current state is a reflection of ongoing refinement to the cost adjustors and revenue standards.

Equalisation Component

It is a legislative requirement that Financial Assistance Grants are distributed on the basis of full horizontal equalisation. Horizontal equalisation requires *that 'every local government in the State has the ability to function, by reasonable effort, at a standard not lower than the average standard of other local governments in the State'*.

Horizontal equalisation recognises the differences in each local government's capacity to raise the revenue and expenditure (not capital) required to perform their expected functions. While it is acknowledged some local governments may have no capacity shortfall, there is a provision in the legislation that requires that a local government's General Purpose Grant cannot be less than 30% of what it would have received if the Grant was calculated on a per capita basis.

The national pool of funding available for distribution is usually adjusted each year in line with the Consumer Price Index and population growth. While the Commonwealth requires distribution of the Grants to local government on an equalisation basis, the Commonwealth Government allocates general purpose funding between the states solely on the basis of population.

Local Roads Component

In addition to the General Purpose Grants, local governments also receive Road Grants from the Financial Assistance Grant pool. These funds are untied and have been distributed by the Commission since 1991-92. Previously the funds were tied and distributed by Main Roads WA. The funds are separately identified in the grant determinations.

When the Commission assumed responsibility for distributing road funds it decided to continue with the existing grant distribution arrangements Seven per cent of the road funding is allocated to fund roads servicing Indigenous communities (one-third) and for bridge works (two-thirds).

The remaining 93% is distributed according to the Asset Preservation Model. This model is used to assess the cost of maintaining a local government's road network and takes into account annual and recurrent maintenance costs and the costs of reconstruction at the end of a road's useful life.

The *Local Government (Financial Assistance) Act 1995* (the FA Act) states that road funds must also be distributed in accordance with principles that are approved by the Commonwealth Minister for Local Government.

Legislation

Local Government (Financial Assistance) Act 1995 (the FA Act) – Commonwealth

The FA Act provides financial assistance for local government by means of grants to the states and the territories. The FA Act requires that each state and territory has a Grants Commission as a prerequisite for the continuance of Commonwealth funding. It also establishes National Principles for the distribution of funds with which the State Commissions must comply. These principles are based on the objective of full horizontal equalisation which is defined in section 6(3)(a) of the FA Act as:

"…*a basis that ensures that each local governing body in the State is able to function, by reasonable effort, at a standard not lower than the average standard of other local government bodies in the State*".

Local Government Grants Act 1978 (the Act) – Western Australia

The Act provides for the establishment and membership of the Commission. It also requires that:

- the grant recommendations made by the Commission are made in accordance with the requirements of the Commonwealth Act and any relevant principles of allocation approved under that Act
- the Commission makes recommendations to the Minister regarding the amount of Commonwealth funds that should be allocated to each local government as soon as practicable in the financial year
- the Commission may require any local government to supply information.

There is a requirement that the Act be reviewed every five years.

Approval of Grants

Under the *Local Government Act 1995*, local governments are required to have their budgets adopted by 31 August of each year. However, the Commission does not receive confirmation of the final estimated grant pool from the Commonwealth until July, although a preliminary figure is available in the Commonwealth Budget released in May.

The Commission undertakes a notional grant calculation based on the May grants figure. This allows the Commission to provide informal advice to local governments on request in late June, as to their expected grant allocation.

The grants remain notional until the Commission receives notification of the final estimate of the allocation to the State. Once the final estimate is received, the grant allocations are updated to reflect the amount available for distribution.

This is provided to the State Minister for approval, who then provides the final grants to the Commonwealth Minister for Local Government for approval. The Minister may approve the grant recommendations or request the Commission review all or part of the recommendations.

National Principles for the Allocation of General Purpose and Local Road Grants

The National Principles relating to the allocation of General Purpose Grants payable under section 6 of the *Local Government (Financial Assistant) Act 1995* (the FA Act) among local governing bodies are as follows:

TABLE 1: National Principles for the Allocation of General Purpose Grants

Principle	Description
Horizontal 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 FA Act. This is a basis that 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.
Effort Neutrality	An effort or policy neutral approach will be used in assessing expenditure requirements and revenue capacity of each local governing body. This means as far as practicable, policies of local governing bodies in terms of expenditure and revenue effort will not affect the grant determination.
Minimum Grant	The minimum General Purpose Grant allocation for a local governing body in a year cannot be less than the amount to which the local governing body would be entitled if 30% of the total amount of General Purpose Grants to which the state/territory is entitled (under section 6 of the FA Act) in respect of the year, were allocated among local governing bodies in the state/territory on a per capita basis.
Other Grant Support	Other relevant grant support provided to local governing bodies to meet any of the expenditure needs should be taken into account using an inclusion approach.
Aboriginal Peoples and Torres Strait Islanders	Financial assistance shall be allocated to local governments in a way that recognises the needs of Aboriginal peoples and Torres Strait Islanders within their boundaries.

Principle	Description
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. The Commission has a policy where it applies the Council Amalgamation Principle for five years.

The National Principle relating to the allocation of the amounts payable under section 12 of the FA Act (the identified road component of the Financial Assistance Grants) among local governing bodies is as follows:

TABLE 2: National Principles for the Allocation of Road Grants

Principle	Description
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.

The Balanced Budget

Please note the following data pertaining to the revenue and expenditure standards, cost adjustors and road calculations are from the calculation of the 2023-24 Financial Assistance Grants.

Local governments throughout the State have the responsibility of meeting the needs of the community through providing various services and facilities. The cost of providing services will vary between local governments. The aim of the Balanced Budget is to provide local governments with a General Purpose Grant that gives them the capacity to provide an average range of services at an average standard.

The equalisation requirement of each local government is calculated by assessing the revenue raising capacity and expenditure need of each local government.

This equalisation requirement forms the basis of a local government's General Purpose Grant.

The Road Grant is assessed using the Asset Preservation Model and does not form part of the Balanced Budget calculation, other than being offset against the Transport Standard.

Put simply, the equation is:

Equalisation Requirement = Assessed Expenditure - Assessed Revenue

The General Purpose Grant is calculated as follows:

- An assessment of each local government's revenue raising capacity is made. An average standard is calculated based on actual revenues in five revenue categories, and then applied to key data to generate revenue assessments for each local government. These represent the Commission's assessment of the revenue capacity of each local government, assuming an average rating effort.
- Standard or average expenditure needs are then assessed for each local government. This is the cost (non-capital) of providing a standard or average range of services to the local community. A separate standard is calculated for each of the six expenditure categories. The standardised assessments for each local government are adjusted by cost adjustors which recognise the additional costs that individual local governments experience in the provision of services due to growth, location etc.
- State total revenue is then scaled back to match state total expenditure, establishing an overall 'Balanced Budget'. This step has been included as the Commission's assessments of revenue were in total larger than the assessed expenditures (as not all categories of local government expenditure are included in the Commission's model). This was causing a number of local governments to be assessed as having higher revenue capacity than what could be expected. Matching these sides corrects the imbalance.

- For each local government, the horizontal equalisation requirement is obtained by subtracting the total assessed revenue capacity from the total expenditure need. This is referred to as the preliminary equalisation requirement.
- The preliminary equalisation requirement is averaged with the previous years' equalisation requirements (to provide a measure of stability). This is done over a six-year period by removing the highest and lowest years and averaging the four remaining years.
- The minimum General Purpose Grant a local government can receive is not to be less than what the local government would be entitled if 30% of the total amount of funds for the State were allocated on a per capita basis.

Data Sources

TABLE 3: Data Sources

Data Type	Source
Accessibility Remoteness Index of Australia + (ARIA+)	National Centre for Social Applications of GIS (GISCA)
Socio Economic Indexes for Area (SEIFA)	Australia Bureau of Statistics (ABS)
Population, Population forecast	ABS 3218.0 - Regional Population Growth as of 29 March 2023 Department of Planning – Western Australia Tomorrow 2019: Western Australia Tomorrow, Population Report No. 11, Medium-Term Age-Sex Population Forecasts 2026 to 2031
Population Dispersion	ABS Quick Stats
Regional Centres	Determined by the Commission
Indigenous Population	ABS Quick Stats
Fire Mitigation	Department of Home Affairs and Environment - Biophysical Attributes of Local Government
Cyclone	Australian Building Standards for Cyclone Prone Areas
Off-road Drainage Data	Road Information Returns, Main Roads WA
Interest Expenditure/ Investment Revenue	WA Treasury Corp Information Returns
Valuations, Area, Assessments	Landgate (Valuer General)
Actual revenue and expenditure data	WA Local Government Grants Commission Information Returns
Average mean max temperature Average mean rainfall Average number of rain days	Bureau of Meteorology

Calculating the Standards

The assessed revenue capacity and assessed expenditure need are measures of each local government's ability to function at the average standard. Subtracting the total of the assessed revenue capacity from the total expenditure need produces the equalisation requirement for each local government. For the majority of local governments, revenue capacity is less than expenditure, however for some local governments (most often metropolitan) the assessed revenue capacity is greater than the assessed expenditure need. Local governments in this position have a negative equalisation requirement and are referred to as minimum grant local governments under the Minimum Grant Principle established under the *Local Government (Financial Assistance) Act 1995*.

Natural Weighting occurs when total actual revenue and expenditure matches assessed revenue and expenditure.

Natural Weighting ensures that the Commission bases its calculations on actual revenue and expenditure incurred by the local government industry. This means that actual and assessed revenues and expenditure will match after cost adjustors are calculated.

To implement Natural Weighting into the Balanced Budget, the cost adjustors are calculated prior to the preliminary standard, creating the following equation:

$Total Actual Expenditure = $Total Assessed Expenditure =

$Preliminary Standard + $Cost adjustors

The equations applied by the Commission are derived from statistical analysis. Some standards are simple averages; others are derived from regression analysis.

For example, when a regression approach is applied to key data in the residential, commercial and industrial rates categories, it produces the following:

Standard = ($0.0483 x valuations) + ($708.88 x assessments)

This equation produces a weighting of 4.83c in the $ of Gross Rental Valuation, plus $708.88 per rate assessment. If the Shire of XYZ has a total RCI GRV of $331,344,503 and 17,202 assessments, its RCI Standard would be calculated as follows:

($0.0483 * 331,344,503) + ($708.88* 17,202) = $28,198,093

The regression approach often provides the starting point for the Commission however the Commission can use its discretion to adjust weightings on each of the variables to produce a more equitable outcome across local governments.

The Commission also uses simple averages to calculate some Standards. For example, the Community Amenities Standard is calculated by dividing total expenditure by the number of assessments. This figure is then multiplied by each local government's number of assessments to determine their standard.

Wherever possible, the data used by the Commission in the calculation of standards, is sourced from authoritative third parties such as the Valuer General and the ABS.

Grant Movement Restrictions

The Commission assesses the equalisation and road funding needs of each local government, however they do not receive the full equalisation amount. This is because the funding allocated to the State by the Commonwealth Government is less than the assessed total equalisation requirements of all the 137 local governments.

Where a local government is decreasing, the Commission will implement a maximum decrease for each year to ensure local governments can budget for reductions.

While in the past, limits have been applied to increases, the Commission has more recently tried to pass on increases as quickly as possible to local governments, so has removed the grant increase cap. Local governments furthest from their grant equalisation need will as a result receive the largest increase.

Indian Ocean Territories

The Commission also provides advice to the Indian Ocean Territories Administration on the Financial Assistance Grant requirements for the Shires of Christmas and Cocos (Keeling) Islands. The payments to these local governments do not come out of the WA grant pool but are a direct allocation by the Commonwealth. However, the grant requirements of the territory local governments are assessed in the same manner as mainland local governments, using the principles and methods outlined in this guide.

Revenue Standards

The Revenue Standards are mathematical formulae used to assess the revenue earning capacity of each local government. The Commission calculates the following Revenue Standards:

- Residential/Commercial/Industrial Rates
- Agricultural Rates
- Pastoral Rates
- Mining Rates
- Investment Income.

There are no cost adjustors applied to the Revenue Standards.

An explanation of each of the revenue standards is included below.

Residential, Commercial and Industrial Rate Standard

An estimate of the Residential, Commercial and Industrial (RCI) rate capacity is calculated for each local government using valuations, assessments and rating data. Gross Rental Values (GRVs) used in calculations are three-year averages using the most recent years data that is available.

The RCI Standard is the most significant Standard in the methodology as this revenue source contributes approximately 88% of total local government rate revenue. As a result, it is important that the methodology accurately reflects the rate raising capacity of all Western Australian local governments as it significantly influences grant outcomes. If a local government is assessed as having higher revenue raising capacity relative to other local governments, its level of grant need is reduced.

The Valuer General (VG) provides data on the number of assessments and valuations in each local government to the Commission. The Commission's view is that the two data sets are appropriate to assess local government's revenue capacity.

In recent years, there has been significant mining activity in Western Australia. This has amongst other things resulted in increased property valuations in many areas. This is not the only factor that affects local government's financial capacity, as higher valuations do not necessarily translate to increased capacity to raise rates.

Conversely, decreases in valuations do not necessarily reduce rate income. This is why the number of assessments is used by the Commission to complement the use of valuation data.

RCI data for all local governments is used to calculate a state total, which then forms the basis to create a regression formula that attempts to determine the most equitable fit for all local governments.

The following GRV categories are used from the VG data for valuations and number of rateable properties:

• GRV - Commercial
• GRV - Industrial
• GRV - Miscellaneous
• GRV - Residential
• GRV - Vacant Land
• GRV - Farming
• GRV - No Property Use
• UV – Commercial
• UV – Industrial
• UV – Residential
• UV – Miscellaneous
• UV – Vacant land

This data is used in combination with the rates levied from the following categories:

• GRV Residential • GRV Commercial • GRV Industrial • GRV Shopping Centre • GRV Mining • GRV Community • GRV Rural • GRV Tourism • GRV Townsite • GRV Unimproved • GRV Vacant Residential • GRV Vacant Commercial • GRV Vacant Industrial • GRV Residential Broadacre Developed • GRV Residential Unimproved Broadacre • GRV Residential Rural	• GRV Residential Unimproved Rural • GRV Small Holding • GRV Special Use • GRV Large Commercial, Industrial and Caravan Parks • GRV Mass Accommodation • GRV Other • Special Rural GRV • UV Residential • UV Commercial • UV Industrial • UV Tourism • UV Townsite

It should be noted, that while these are broadly how the categories are allocated, the Commission will make judgement decisions on land use and may at times need to manually adjust what revenue standard the Valuer General data best fits.

In assessing this Standard, the following factors were taken into consideration:

- Valuations, three-year average
- Assessments, three-year average

Residential/Commercial/Industrial Rates Standard

Formula = $708.88 x assessments + $0.048 x valuations

Agricultural Rates Standard

Western Australia has a diverse agricultural industry. This diversity impacts on valuations for agricultural assessments. Since the introduction of the Balanced Budget, this Standard has been calculated using a variety of techniques and variables such as the gross value of rural production, net value of rural production, unimproved valuation, improved valuation and Commission judgement.

In assessing the agricultural rate capacity of a local government, the following variables continue to be used:

- Total number of agricultural rate assessments
- Total valuations
- Agricultural area (ha)

The following rateable categories are sourced from the VG.

- Rural Unimproved Valuations
- Urban Unimproved Valuations

The VG's data includes the area of land available for agricultural production for each local government in the State. Adjustments have been made for 'waste' area (i.e. salt and rock) to reflect its limited value.

The unimproved valuations are assessed by the Office of the Valuer General and are based on an ongoing analysis of property sales. The Commission uses the rates levied from the following categories to create its agricultural formula.

- UV Primary Production
- UV Rural
- Minimum Rates - UV Primary Production
- Minimum Rates - UV Rural

The following categories are also often used:

- UV Rural Residential
- UV Rural Improved
- UV Rural Vacant
- UV Special Rural
- UV Urban Farmland
- UV Small Holding

If they do not fit the Agricultural standard for a local government, such as where the primary use is for residential purposes, they will be considered as part of the Residential, Commercial and Industrial Standard. Likewise, often the UV residential property is better assed as being included as part of the agricultural standard than the RCI standard.

A regression formula is created based on the information provided by the Valuer General to assess each local government's agricultural rate capacity.

Agricultural Rates Standard

Formula = $873.58 x assessments + $0.0026 x valuations + $3.85 x area (ha)

Pastoral Rates Standard

Pastoral rates are levied on pastoral stations. The Commission uses regression analysis to determine the formula to assess the pastoral rating capacity of local governments. The Commission uses three year averages of the valuation of pastoral land, area (Ha) and number of rateable properties. This is linked to rates levied by a local government.

The Commission uses the Rural Improved – Pastoral rateable category sourced from the VG for valuation, area (Ha) and rateable properties data. Rates levied data is based on UV Pastoral and Minimum Rates UV Pastoral information from the LGs information return.

Pastoral Rates Standard

Formula = $0.02804 per ha + valuations x $0.01261 x area (ha)

Mining Rates Standard

A local government that has a mining valuation is assessed by the Commission for mining rates, as it is viewed as having the capacity to raise mining revenue.

The information provided by the Valuer General provides information on rateable mining assessments (assessments, valuations and area) in each local government. This includes:

- Coal Mining Lease
- Exploration Licence
- General Purpose Lease
- Geothermal Exploration Permit
- Gold Mining Lease
- Mineral Claim
- Mineral Lease
- Mining Lease
- Petroleum Exploration Permit
- Petroleum Production Licence
- Prospecting Licence
- Retention Licence
- General Purpose State Agreement
- Mining Lease State Agreement

The following data is used to determine the Mining Rates Standard is:

- Total Number of Mining Assessments;
- Total Valuations;
- Total Mining Valuation Area and
- Total Mining Rates Levied.

Rates levied data is based on Information Return categories of UV Mining, UV Mining Improved and UV Mining Vacant. Exploration leases are also included in this category.

The Commission has found that there were a number of local governments that do not raise mining rates even though they had rateable assessments. This discrepancy occurred due to the low valuations of the mining assessments and the local government's decision not to rate due to the cost involved. It has been noted that some local governments also have only one UV rate, so where mining activity is low, these rates have sometimes been included in other categories. To ensure there is effort neutrality, the Commission assesses all local governments with mining assessments, based on the information provided by the Valuer General.

Mining Rates Standard

Formula = $490.49 x assessments + $0.00 x area + $0.1470 x valuations

PLEASE NOTE: Due to the overwhelming influence the Shire of Ashburton, Shire of Kwinana, Town of Port Hedland and City of Wanneroo's rates were having on the Commission's formula, they were removed from the State formula and calculated separately.

This formula used for Ashburton, Kwinana, Port Hedland and Wanneroo in 2023-24 was:

$909.58 x assessments + $0.00 x area + $0.2651 x valuations

Investment Income Standard

The Commission acknowledges that borrowings are an essential part of a local government's financial operations and the assessment of this expenditure produces a more equitable assessment of a local government's investment income. The Net Investment Standard also recognises that local governments earn interest from general and reserve funds. The Commission offsets the costs of borrowing against investment income to produce a more equitable assessment of investment income.

Only borrowing costs attributable to the Western Australian Treasury Corporation are recognised as it provides the majority of borrowing to local government. To comply with the effort neutrality principle, the Commission assess a local government's capacity to raise investment revenue based on its population.

The methodology recognises interest paid on borrowings from WATC averaged over the past three years. The Commission nets state investment revenue against state interest expenditure. The total state investment revenue is greater than the total state interest expenditure. The net figure is then divided by the total state population to produce a per capita amount which is then applied to a local government's population.

The formula is as follows:

[(Total State Investment Revenue – Total State Interest Expenditure) /State Population] x Local Government's population *State = all WA local governments

Investment Income Standard Formula = ($7.40 x LG Population)

Expenditure Standards

The Commonwealth legislation requires that the differences in expenditure for local governments across the State are considered. The expenditure standards are mathematical formulae used to assess the expenditure need of each local government. The Commission uses the following expenditure standards:

- Recreation and Culture;
- Governance;
- Community Amenities;
- Education, Health and Welfare;
- Law, Order and Public Safety; and
- Transport.

In some areas of local government operations, user fees and charges allow local governments to recover a portion of the costs associated with the provision of those services, such as Recreation and Culture. Previously the Commission calculated separate revenue and expenditure standards to account for this, but the Commission now deducts the revenue generated by each local government in the above functions directly from the expenditure.

To comply with the Other Grants Support Principle, the Commission includes other grants received by local governments. These grants are included with other revenues and are netted from expenditure. This reduces the expenditure total of each function by the total amount of available grants.

Consistent with natural weighting, the Commission's assessments are scaled to the actual amount of total revenue and total expenditure. To achieve this on the expenditure side, it requires that the cost adjustors are calculated prior to the expenditure Standard.

Therefore:

Actual Expenditure = Cost Adjustors + Preliminary Standard = Assessed Expenditure

Recreation and Culture Standard

This Standard includes expenditure and revenue associated with:

- Swimming pools and other swimming areas on rivers and beaches and associated facilities
- Indoor and outdoor sporting facilities
- Recreational areas such as parks and gardens, public halls, function rooms, civic and community centres
- Cultural facilities such as libraries, performing arts, museums and art galleries, orchestras, art historical projects, presentation of festivals, exhibitions, anniversary and centenary celebrations, etc.

The calculation of the standard is based on the premise that all local governments provide a range of services based on the policy decisions of the individual local government. This is in line with the Commission's 'effort neutral' principle. A range of variables have been considered by the Commission in the past when calculating the standard, including, population, adjusted population, dwellings and the number of rate assessments.

Historically, Recreation and Culture revenue was calculated separate to the expenditure standard. This was primarily because the recreation and culture revenue raising capacity of local government, in the form of user pays fees or charges, is significant. However, recreation and cultural facilities are only partly funded by user fees. The Commission now calculates the Recreation and Culture Expenditure Standard net of revenue.

Recreation and Culture Standard

Formula = ($299.52 x LG Population + Cost Adjustors = Assessed Expenditure)

Cost adjustors which apply to the standard are:

- Location
- Growth
- Population Dispersion
- Socioeconomic Disadvantage
- Regional Centres
- Aboriginality
- Climate.

Governance Standard

Governance includes:

- Expenditure and income directly associated with elected members e.g., travel, accommodation, conference fees, entertainment of dignitaries and visitors, meeting attendance, extraordinary meetings, naturalisation ceremonies, mayoral and presidential allowances
- Costs associated with employing staff, accommodation and administration required to service the operation of the Members of Council. These may include audit fees, conferences and staff training, consultant fees, and salaries and wages of those staff directly involved in supporting the Members of Council.

To calculate the Governance Standard, all local government's governance expenditure is totalled to create a "state total". The amount allocated to the governance standard through cost adjustors is deducted from this. Then the remaining total is divided by the total number of rateable assessments to derive an average $ per assessment figure. The Commission's view was that the number of rateable assessments was the appropriate determinant for the Governance Standard.

Governance Standard

Formula = ($184.62 x Total Assessments + Cost Adjustors = Assessed Expenditure)

Cost adjustors applied to the standard are:

- Location
- Socio-economic disadvantage
- Regional Centres
- Aboriginality

Law, Order and Public Safety Standard

The Law, Order and Public Safety (LOPS) standard includes expenditure and income associated with:

- Administration, promotion, support and operation of fire prevention services
- Contributions to volunteer fire brigades, payments to fire brigade boards, roadside clearing operations and other fire prevention costs
- Control of animals, beach inspectors and park rangers, lifesaving and beach patrols, contributions to state and voluntary emergency services and the enforcement of local laws.

In the past, the Commission used as many as four categories for assessing law, order and public safety expenditure requirements. This approach is no longer used, with one standard now applying to all local governments.

The process of calculating the LOPS Standard is very similar to the Governance Standard, whereby total net expenditure is calculated, cost adjustors removed and then the remaining amount divided by the State total number of rateable assessments to create a state average. This is then multiplied by each local government's total number of rateable assessments to determine their LOPS assessed expenditure requirement.

The Commission considers that the use of assessments provides a more equitable result compared to the former methodology which used dwellings and adjusted population. The Commission felt that the number of rate assessments is a better measure, recognising that services would be provided not only to homes and individuals but to businesses as well, through services such as security patrols.

Law, Order and Public Safety Standard

Formula = ($73.60 x Total Assessments + Cost Adjustors = Assessed Expenditure)

Cost adjustors which apply to this classification are:

- Location
- Socio-economic Disadvantage
- Population Dispersion
- Fire Mitigation
- Cyclone
- Aboriginality
- Special Needs

Education, Health and Welfare Standard

This Standard includes income and expenditure associated with:

- preschools, nurseries and other educational institutions
- operating school bus services, student hostels and migrant education centres
- the provision of infant health care, immunisation programmes, meat inspection services, health inspection services (including the employment of a medical health officer), other community health services such as ambulance services and nursing care
- pest control such as the eradication of mosquitoes and flies, and other preventative services, such as school health programmes
- care of families and children, such as the provision of crèches, child minding centres and emergency home help
- aged and disabled services, such as senior citizens' centres, meals on wheels, aged persons' homes
- other welfare services such as the employment of social and welfare workers, drop in centres for the unemployed, women's refuge centres and related institutions.

Local government feedback to the Commission supports population as the key driver for Education, Health and Welfare expenditure.

The Education, Health and Welfare Standard is calculated using the total state revenue and expenditure in this function. Revenue is subtracted from the expenditure, resulting in a net expenditure figure. The total of applicable cost adjustors is removed. This figure is then divided by the State population to derive a per capita figure. This figure is then multiplied by each local government's population.

Education, Health and Welfare Standard

Formula = ($47.51 x LG Population + Cost Adjustors)

Cost adjustors which apply to this classification are:

- Location
- Population Dispersion
- Socio-economic Disadvantage
- Aboriginality
- Regional Centres
- Medical Facilities.

Community Amenities Standard

This Standard includes expenditure and income associated with:

- administration, inspection, support, operation etc. of town planning and regional development services. These include the preparation of town planning development schemes, zoning and rezoning either by consultants or local government staff, the purchase and resumption of land for public open space, community facilities etc. and any other expenditure incurred by a local government with respect to such activities. Excluded are town planning development schemes where the owners of land within particular schemes are responsible, on a contributory basis, for land development costs incurred by local governments in the scheme areas
- lining and barrelling of creeks, provision of open and deep drainage systems, flood mitigation works, such as construction and maintenance of levee banks, dredging of rivers and diversion channels. Drainage associated with road works is excluded from this classification as it is included in the asset preservation model.
- beach restoration, foreshore protection, removal of dead animals, debris, abandoned vehicles and other environmental programmes
- sanitation – Household - Administration and operation of general refuse collection and disposal services
- sanitation – Other - Operation of sanitary services other than for general refuse collection and disposal services.

Unlike other expenditure standards, Community Amenities has a large revenue component, mainly through sanitation (waste management charges). While previously the Commission had excluded sanitation and refuse revenue/expenditure from the Balanced Budget, in response to a number of submissions, the Commission has reintroduced sanitation to improve the integrity of the calculation of the Community Amenities Standard.

The standard is calculated using the three year average of net Community Amenities expenditure. The total has the applicable cost adjustors removed and is then divided by the number of assessments. The average is then multiplied by each local government's number of rating assessments.

Community Amenities Standard

Formula = ($144.71 x Total Assessments + Cost Adjustors = Assessed Expenditure)

Cost adjustors which apply to this classification are:

- Location
- Growth
- Socioeconomic Disadvantage
- Population Dispersion
- Regional Centres
- Off-Road Drainage Allowance
- Aboriginality
- Special Needs.

Transport

The Transport Expenditure Standard related to roads and bridges, footpaths, laneways, street lighting and aerodromes.

Road needs are assessed by the Asset Preservation Model. In order to assess all transport needs, the Asset Preservation Model was expanded to include the asset preservation needs of footpaths (including crossovers), laneways, aerodromes and street lighting. The expanded model provides a preliminary Transport Standard for every local government.

The treatment of aerodromes includes allowances for local government airstrips, airstrips servicing aboriginal communities and airstrips on pastoral stations. Airstrips that have regular passenger services are deemed to be commercial operations and receive an allowance as if they were an emergency strip only.

The assessment for each local government under the preliminary Transport Standard is then discounted to exclude all road preservation grants.

The Commission, in recent years, has scaled back the total standard for the State to equal the total amount actually spent on road preservation by local government. The rationale for this is to prevent transport expenditure from exerting too large an influence on the Balanced Budget.

Transport Standard

Formula = Factored Back Transport Needs - Road Preservation Grants

Cost Adjustors

The Commission recognises that there are many potential influences on local government expenditure, many of which are beyond a local government's control. The Commission recognises these influences through the application of cost adjustors.

Cost adjustors are determined through a combination of data specific to the cost adjustor as well as a population component. This approach ensures that a local government's population needs are considered and small local governments do not receive excessive assessments (and vice versa).

Allocations and assessments can be seen in the annual release of the Balanced Budget made available on the Grants Commission's website, following the approval of the final grants by the Commonwealth Minister for Local Government.

The cost adjustors in order of significance as determined by the Commission are as follows:

1. Location
2. Socio-Economic Disadvantage
3. Population Dispersion
4. Climate
5. Aboriginality
6. Growth
7. Regional Centres
8. Fire Mitigation
9. Off-Road Drainage
10. Medical Facilities
11. Cyclone
12. Special Needs

Location

Applied to: Recreation and Culture, Community Amenities, Governance, Law, Order and Public Safety, Education, Health and Welfare

Data Used: Accessibility Remoteness Index of Australia + (ARIA+) Town Score (GISCA)

Purpose: The Location Cost Adjustor recognises the higher operating costs a local government faces due to its location. ARIA+ is used in the calculation of the Location Cost Adjustor.

The Location Cost Adjustor is applied to all expenditure standards except the Transport Standard. The Commission considers location to be the most significant issue impacting on the costs of a local government.

The formula uses the ARIA+ index which was developed by the National Centre for Social Applications of GIS (GISCA) at the University of Adelaide, in South Australia. It assesses the remoteness of a town/location based on access via road networks to six different categories of service centres. Under ARIA+ a local government can receive a maximum score of 15. The Commission uses the administration centre ARIA+ score however the Commission has excluded Serpentine-Jarrahdale on the basis that it is classified as a metropolitan local government by the Commission. Simply stated, localities that are more remote have less access to service centres and therefore face higher costs.

Socio-Economic Disadvantage

Applied to: Recreation and Culture, Community Amenities, Governance, Law, Order and Public Safety, Education, Health and Welfare

Data Used: Socio Economic Indexes for Area [SEIFA] (ABS)

Purpose: The Socio-Economic Disadvantage Cost Adjustor recognises the socio-economic circumstances of local governments and the impact on their operating costs.

The Commission recognises that local governments with higher proportions of disadvantaged people in their population incur higher operating expenditures in the delivery of services.

Under the methodology, the Commission uses the Socio Economic Index of Disadvantage. Only local governments below the mean SEIFA score of 1000 will receive a cost adjustor assessment that recognises their socio-economic circumstances. As the SEIFA is based on all areas of Australia, the Commission has used only Western Australian local governments and ranked them relative to each other. This is then used to compare local governments in Western Australia, rather than using the index based on all local government areas.

Population Dispersion

Applied to: Recreation and Culture, Community Amenities, Law, Order and Public Safety, Education, Health and Welfare

Data Used: Number of townsites, distance from town centre, State Suburb townsite populations (collected from Information Return and verified through the ABS and Google maps)

Purpose: The Population Dispersion Cost Adjustor recognises the costs of having to provide services to multiple towns/population sites.

The cost adjustor recognises the cost burden on a local government to provide services to a townsite other than the main service centre.

For a local government to receive recognition under the population dispersion cost adjustor, the Commission will first assess the appropriateness of recognising the townsite. This will include identifying whether the geographic area in question fits the Commission's view of a townsite.

This may include consideration of (but is not limited to) the existence of a main street, local government and non-local government facilities and the number of dwellings.

Once the Commission establishes a townsite exists and for a local government to receive recognition, the townsite will need to be:

- Further than 25km from the main service centre; and
- Have a population of more than 50 people.

The Commission may exercise judgement on any of the criteria where it believes it to be appropriate.

It is not the intention of the Commission to recognise suburbs. It is the intention to recognise standalone townsites.

The Commission has placed a cap on population, only providing recognition for a population of up to 2,000. If the population of a satellite town exceeds this amount, the population will be capped at 2,000.

Aboriginal communities are not included in the Commission's calculation of the Population Dispersion Cost Adjustor.

The Commission uses data from the Information Return to determine the additional population centres. This information is cross referenced with the ABS 2021 Census information to verify the population for the town sites and Google Maps is used to ensure the road distances provided in the Information Return are accurate.

Climate

Applied to: Recreation and Culture

Data Used: Average Mean Maximum Temperature, Mean Rainfall, Number of Rain Days (Bureau of Meteorology) and ABS population.

Purpose: The Climate Cost Adjustor recognises the impact of climate on a local government's operating costs particularly those associated with water consumption and electricity charges.

The Commission recognises that climate impacts on local government operating costs. The aforementioned meteorological data is used to derive a measure of the relative impact. The largest portion of these costs relate to the Recreation and Culture Standard as a result of the increased need for water for recreational spaces. Those local governments with low rainfall, low rain days and high temperatures are assessed as experiencing the greatest disadvantage. Due to the recognition of temperature, the Commission believes that electricity costs for cooling in warmer regions is also recognised.

The Climate Cost Adjustor uses four components in determining the Cost Adjustor:

- Population
- Mean Maximum Temperature
- Mean Rainfall
- Rain Days.

A local government's share of each of the totals of population, mean maximum temperature, mean rainfall and rain days are calculated and are then used to determine a percentage share of the overall Climate Cost Adjustor allocation.

Aboriginality

Applied to: Recreation and Culture, Community Amenities, Governance, Law, Order and Public Safety, Education, Health and Welfare.

Data Used: Aboriginal Population (ABS)

Purpose: The Aboriginality Cost Adjustor is included to comply with the National Principles under the FA Act, recognising that local governments with proportionately higher aboriginal populations have potentially higher costs as a result of responding to the needs of aboriginal people.

To calculate the cost adjustor, each local government's aboriginal population is calculated as a percentage of the state's aboriginal population and also as a percentage of the local government's population. This is then compared to the State average.

If the local government is higher than the State average for either of the two categories, it will qualify for a cost adjustor allowance.

This factor only applies to those local governments that have a higher than state average number of Indigenous persons or above state average percentage of Indigenous persons.

Growth

Applied to: Recreation and Culture, Community Amenities

Data Used: Western Australia Tomorrow 2019 (Western Australian Planning Commission), ABS population change from the last 5 years

Purpose: The Growth Cost Adjustor recognises growth over two periods; past, and future. An assessment is calculated based on a local government's growth during these time periods.

The Growth Cost Adjustor recognises local governments growing at a rate higher than the average and the associated demand for service delivery.

The cost adjustor takes into account two-time periods:

- The actual population change from the last 5 years (ABS data)
- The estimated change in population for the current/future 5-year period (WAPC data).

Every determination will have the periods updated to ensure the past 5 years and current/future 5-year period is included. The time period used in the current/future period is dependent on the data available in the WAPC WA Tomorrow publication at that time.

The Commission identifies each local government's population growth in each of these periods. Each period is weighted equally when determining the final allocation cost adjustor allocation for a local government. The Commission considers both the local government's percentage growth and the increase in the number of people. If the local government is above the state average for either percentage growth or the average number of people growth, then they will receive a cost adjustor for that time period.

Regional Centres

Applied to: Recreation and Culture, Community Amenities, Governance, Law, Order and Public Safety, Education, Health and Welfare.

Data Used: The Commission exercises its discretion on which local governments qualify as a regional centre.

Purpose: The Regional Centres Cost Adjustor recognises that local governments incur additional costs for the provision of services and facilities on a recurrent basis because of population inflow from other local governments.

The Regional Centres Cost Adjustor recognises the additional cost incurred by local governments providing services to non-residents. These non-resident populations can impact on all areas of local government expenditure.

The Commission applies the following definition to a regional centre:

A town site with a relatively large population within its region, providing most essential state and local government services. Consisting of a large diverse employment base and acting as a transport hub for major road networks to connect surrounding settlements to services that are beyond the boundary of the local government.

The Commission acknowledges the following local governments as regional centres:

- Tier 1 - Perth
- Tier 2 - Albany, Bunbury, Greater Geraldton, Kalgoorlie-Boulder
- Tier 3 - Armadale, Busselton, Carnarvon, Collie, Esperance, Joondalup, Katanning, Mandurah, Manjimup, Merredin, Nedlands, Narrogin, Northam, Swan.

Tier 3 local governments are allocated a relativity of 2, tier 2 local governments are allocated a relativity of 5 and tier 1 (City of Perth) is allocated a relativity of 10. These relativities in combination with population share are used to calculate the Regional Centres Cost Adjustor.

Fire Mitigation

Applied to: Law, Order and Public Safety

Data Used: Biophysical Attributes of Local Government (Department of Home Affairs and Environment)

Purpose: The Fire Mitigation Cost Adjustor recognises that some local governments incur greater costs in bush fire prevention and control due to topographic conditions.

The cost adjustor assesses a local government's fire risk using the following data:

TABLE 4: Terrain Categories

Terrain	Relief
Undulating terrain	relief in 1km² less than 50m
Rolling terrain	relief in 1km² greater than 50m, less than 100m
Hill terrain	relief in 1km² greater than 100m, less than 200m
Mountain terrain	relief in 1km² greater than 200m

The cost adjustor recognises that terrain is a significant factor in managing and fighting bush fires.

Off-Road Drainage

A score is calculated for each local government based on their terrain profile. This score is then used to determine a relative share of the State's terrain. A population share is also calculated as part of the overall assessment.

Applied to: Community Amenities

Data Used: Modelling is based on existing infrastructure.

Purpose: The Off-Road Drainage Cost Adjustor relates to urban off-road drainage needs, as opposed to road drainage needs included in the Asset Preservation Model. A model is used to assess the cost of maintaining open drains and channels, storm water drains, natural watercourses, creeks that require maintenance, levee banks, pumps, pipe drains and drainage sumps.

The Commission's model assesses the cost of maintenance of off-road drainage based on existing infrastructure. Adjustments are made to the data periodically to ensure costs are accurately reflected.

The costs are assessed as follows:

TABLE 5: Off-Road Drainage Allowances

Off-Road Drainage Cost	
Storm water drains	$2,691 - $4,575 per km
Open drains and channels	$2,925 - $4,972 per km
Creeks that require maintenance	$2,048 - $3,481 per km
Basins	$0.36 - $0.62 per m2
Sumps	$0.70 - $1.99 per m2
Levee banks	$1,638 - $4,177 per kw
Pumps	$234 - $398 per kw

The costs are increased for the northern regions.

Medical Facilities

Applied to: Education, Health and Welfare

Data Used: Medical Expenditure (Information Return)

Purpose: The Medical Facilities Cost Adjustor recognises the costs incurred by local governments in assisting with the costs of employing a doctor and nurse practitioners.

The Commission recognises that some local governments provide funding assistance to employ doctors and nurse practitioners. This is regarded as an essential service for which there is no other alternative. Expenditures by local governments (not capital) will be recognised when calculating the cost adjustor.

The cost adjustor uses net figures. Any revenues received by a local government for the provision of medical services will be offset against expenditures. Local governments receive an allowance from the Commission which recognises a percentage of their costs. The maximum allowance is capped at $85,000. The cost adjustor does not recognise the full cost of the employment of a doctor, to provide a degree of effort neutrality and ensure that the cost adjustor is apportioned with some degree of equity. Local governments receiving the maximum cost adjustor were calculated first with the remaining local governments receiving a cost adjustor based on a percentage.

The Commission consider expenditure relating to salary/retainer, car, housing, surgery rent and communication expenses.

The Commission does not recognise depreciation, loan interest, insurance, computer equipment/internet, "future services provisions", building maintenance, capital expenditure or office expenses. While requested in the past, at this time, dentists, paramedics, physiotherapists, general nurses and other medical professionals are not considered under this cost adjustor.

Cyclone

Applied to: Law, Order and Public Safety

Data Used: Australian Building Standards

Purpose: The Cyclone Cost Adjustor recognises local governments that incur pre-cyclone clean-up costs, planning costs and increased insurance costs.

Local governments are given a score according to risk. Those with the highest risk are given a score of 3 and the lowest a score of 1. These scores are then used to allocate a share of the total cost adjustor. The local governments considered at risk from cyclones are as follows:

- 3 - Category / Zone D (Severe Cyclones):

  Applies to Ashburton, Carnarvon, Exmouth, Port Hedland, Karratha

- 2 - Category / Zone C (Tropical Cyclones):

  Applies to Broome, Derby-West Kimberley, Wyndham-East Kimberley

- 1 – Commission Discretion

  Applies to Christmas Island, Cocos (Keeling) Islands, East Pilbara, Shark Bay and Halls Creek.

Special Needs

Applied to: Law, Order and Public Safety, Community Amenities

Data Used: Submission by local government

Purpose: The Special Needs Cost Adjustor recognises local governments in unusual circumstances.

The Special Needs Cost Adjustor recognises that a local government may experience special circumstances which result in extraordinary costs that are not captured by the existing cost adjustors. The calculation of any cost adjustor in these circumstances is at the discretion of the Commission. Currently the only local governments to receive a special needs allowance are Gingin and Murchison.

Indian Ocean Territory Specific Cost Adjustors

Indigenous

The Indigenous cost adjustor is not applied in the same manner as the mainland. Rather than using Indigenous population the Commission uses ancestry data. This recognises Malay, Indonesian and Javanese heritage of the people for Cocos (Keeling) Islands and Chinese and Malay people for Christmas Island. Using the different ancestries reflects the cultural diversity of the Shires and the difficulties faced in catering for a number of different ethnicities.

Special Needs

Applied to: Governance

Data Used: Submission by local government

Purpose: The Special Needs Cost Adjustor recognises local governments in unusual circumstances.

A special needs cost adjustor allocation has been made to reflect the special needs associated with high insurance premiums on residential properties on Home Island (Shire of Cocos (Keeling) Island).

Both local governments receive an allocation of funding due to the need to print their own newspaper to remain compliant with legislative requirements.

Asylum Seeker

Applied to: Governance

Data Used: Submission by local government

Purpose: Recognises the impact of asylum seekers on the Shire's facilities and services and reflects the Commonwealth Government's direct responsibility for asylum seekers.

Human Resources

Applied to: Governance

Data Used: Submission by local government

Purpose: The Human Resource Allowance seeks to recognise the additional impost of undertaking staff training and development and recruiting and retaining staff.

Sanitation

Applied to: Community Amenities

Data Used: Submission by local government

Purpose: The Special Sanitation allowance recognises additional costs associated with the difficulty in containment of residential, commercial and industrial waste products.

Special Function

Applied to: Governance

Data Used: Submission by local government

Purpose: The Special Functions allowance recognises the additional civic type functions performed by the Shire that are typically performed elsewhere by other levels of government such as:

- Providing a point of enquiry for residents about government services.
- Requirement to host a particularly large extraordinary number of civic receptions resulting from many special visitors to the island.
- Language translation.

Roads

The Commission has used an Asset Preservation Model to distribute Commonwealth road funds to local governments in Western Australia since 1991-92. This section describes the current version of the Asset Preservation Model.

The original Asset Preservation Model[1] was developed by Main Roads WA and local government in 1989-90 and was first used in 1990-91 for distributing Commonwealth local road funds. It was derived from a theoretical model developed by the Australian Road Research Board[2].

The Commission assumed responsibility for the distribution of Commonwealth local road funds in 1991-92, following the decision of the Special Premiers Conference in October 1990 to untie these funds. Although the funds were untied, the Commonwealth Government agreed to continue identifying the funds for roads. This meant that these funds would continue to be distributed in accordance with road needs.

When the Commission took over responsibility for distributing the identified Commonwealth road funds, it undertook a comprehensive review of the Asset Preservation Model and modified and refined it.

Principles for Distribution of Road Funds

The National Principle relating to the allocation of the identified road component of the Financial Assistance Grants under section 12 of the Commonwealth *Local Government (Financial Assistance) Act 1995* is as follows:

> *"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."*

The following additional policies, developed in consultation with the Commonwealth are also applied.

1. Seven percent of the funds will be reserved for special projects: two-thirds for bridges and one-third for roads servicing Indigenous communities.
2. The remaining 93 percent of funds will be distributed according to Asset Preservation Needs as determined by the Western Australian Model.
3. The Asset Preservation Needs will be adjusted to provide for minimum standards as determined by the Western Australian model.
4. All roads that are the responsibility of local government will be used in assessing asset preservation needs.

[1] Working Party for the distribution of Federal Local Road Funds, 1990, 'Distribution of Federal Local Road Funds among Local Government Authorities', Main Roads Western Australia, Perth.
[2] Australian Road Research Board, 'Study into Assessment of Inherent L.G.A. Cost Disabilities for Roads', P J Mulholland, ARRB, Melbourne

Road Funding

In accordance with the above policies seven percent of the Commonwealth road funds are allocated for Special Projects and the remaining 93 percent distributed according to Asset Preservation Needs.

Two thirds of the seven percent for Special Projects is allocated for preservation of bridges. A committee, comprising representatives of the WA Local Government Association (WALGA), Main Roads WA (MRWA) and the Commission, recommends allocations for bridges. The Committee is advised by Main Roads WA, which assesses priorities in accordance with its bridge management program.

One third of the Special Project Funds are allocated to roads servicing remote Indigenous communities. A committee, comprising representatives from the WALGA, DLGSC, MRWA, Department of Planning, Lands and Heritage and the National Indigenous Australians Agency recommends allocations for roads servicing remote Aboriginal communities. The Committee has established funding criteria based on factors such as the population and the distance of a community from a sealed road. The aim of the criteria is to better meet the needs of Aboriginal communities.

In addition to the Commonwealth Special Project funds, MRWA contributes a third of the cost of all projects funded under the Special Projects Program. This contribution of state funds is subject to the condition that local governments spend the special project funds on the project for which they were allocated.

An Overview of the Asset Preservation Model

The Asset Preservation Model assesses the average annual cost of maintaining each local government's road network. It takes into account:

- Annual and recurrent maintenance costs; and
- Reconstruction at the end of the road's useful life.

The model recognises the different needs of urban and rural roads, and the different levels of development of these roads. Thus, the needs of sealed, gravel and formed roads are each treated according to their particular needs.

The model calculates annual asset preservation expenditure needs for each work based on the following formula:

Unit cost per km x frequency factor x road length = Annual expenditure need

For example, the annual expenditure need for resealing for a local government that has 10 kilometres of rural road sealed 6.5 metres wide would be:

$53,044 (Unit Cost per KM) x 1/15 (Frequency Factor) x 10 (Length KM) = $35,363

The frequency factor refers to how often the work is carried out. In this example, resealing is carried out every 15 years.

The annual cost of all relevant road work activities is calculated in this way for each local government, to obtain its total asset preservation expenditure needs.

The Commission's Asset Preservation Model has the facility to equalise road standards through minimum standards. These standards help local governments that have not been able to develop their road systems to the same degree as the more affluent ones.

The model requires comprehensive road statistics, costs and work standards. These are discussed in the following sections of this document.

Road Statistics

WA's road classification has three categories – commonwealth roads, state roads and local government roads.

Statistics for all local government roads are used in assessing a local government's needs. These exclude private roads and National Park and Forestry roads that are the responsibility of the Department of Biodiversity, Conservation and Attractions.

Road statistics are obtained from MRWA in March each year. These represent a snapshot of the road inventory at the time they are provided by MRWA.

Built up areas are separately identified by the Commission because roads within them generally involve greater expenditure than roads in non-built up areas. This is because roads in built up areas:

- Have high traffic volumes;
- Have large numbers of intersections, necessitating intersection treatments, pavement markings, signs, etc;
- Require kerbing for traffic control and or drainage;
- Require an asphalt surface where traffic volumes are high, or where noise reduction is important;
- Require underground drainage because surface drainage is impractical;
- Involve high cost of service alterations during reconstruction;
- Involve high costs because road works have to be carried out under heavy traffic.

The following definition is intended to limit built up areas to localities where the above conditions prevail.

Residential localities, which have lots with areas less than 0.45 ha, and commercial and industrial areas that meet the following criteria are classed as built up:

- At least half the blocks are developed
- Existing roads have a minimum standard of a gravel road for old subdivisions and a sealed road for new subdivisions.

Areas servicing sporting complexes, schools and caravan parks are classed as built up where:

- They are located in an area which is developed as residential; or
- The existing roads servicing these facilities are already sealed and kerbed.

A road connecting two built up areas is classed as a road in a built-up area where the connecting road is less than 300m in length.

The road statistics used in the model are shown below:

TABLE 6: Road Classes and Statistics used in the Model

	Roads In Built Up Areas	Roads Outside Built Up Areas
Road Classes	Residential streets Local industrial and distributor roads	Local Roads
Statistics	Aggregate seal (L) x (W) Asphalt seal (L) x (W) Gravel (L) Kerbing (L) Longitudinal piped drainage (L) Bridges (A)	Aggregate seal (L) x (W) Gravel (L) Formed (L) Unformed (L) Bridges (A) River crossings (A)
(L = length in kilometres, W = width in metres, A = area in square metres)		

Sealed roads have many different widths. To simplify the model, the sealed road lengths are converted to lane kilometres with a standard width of 3.5 metres. One lane kilometre = 3,500 square metres.

Roads Servicing Remote Aboriginal Communities

Aboriginal access and internal community roads are included in the statistics used in assessing asset preservation needs, provided that they are public roads included in local government road inventories and are regularly maintained by local governments.

Local governments have accepted responsibility for maintaining about 6,000 kilometres of access roads and these are included in the road statistics used in distributing road funds.

Unsealed Roads Carrying High Volumes of Traffic

The Commission makes allowances for unsealed roads carrying higher traffic volumes than they could carry efficiently.

Equivalent Average Annual Traffic [EQ AADT], based on the equivalence factors in the table below are used as the measure of traffic. For example, a class 12 Triple Road Train will attract a weight of 26 per vehicle compared to Class 1 vehicle.

TABLE 7: Equivalence Factors for Trucks on Gravel Roads

Vehicle	Number of axles	Equivalence Factor
Classes 1 and 2		1
Class 3 truck	2	4
Class 4 truck	3	6
Class 5 truck	4	8
Class 6	3	6
Class 7	4	8

Vehicle	Number of axles	Equivalence Factor
Class 8	5	10
Class 9 semi-trailer	6	12
Class 10 B double	8	16
Class 11	8	16
Class 12 Triple road train	6-19	26

The equivalence factors apply to unsealed roads only.

Gravel or formed roads with an EQ AADT of 75 or greater qualify for an allowance.

The allowance for traffic is made by increasing the allowances provided in the Asset Preservation Model. The allowances are set out in the table below. The maximum of $10,544 per km is equivalent to the allowance for a road sealed 7.0 metres wide.

TABLE 8: Allowances for Traffic on the Cost of Maintaining Gravel Roads (per kilometre) $ per Year

EQ AADT	Allowance per km 2023-24 ($)
Less than 75	$4,665
75 to 99	$6,445
100 to 149	$8,167
150 to 200	$9,926
Greater than 200	$10,544

Local governments receive only 13.0 percent of these allowances because the available Commonwealth grants are 13.0 percent of assessed road preservation needs.

Local governments on minimum standards will not be eligible for an allowance because these local governments are already receiving higher road grants than they would receive in recognition of their road needs.

Gravel and formed roads that meet the criteria in the table below will be deemed to qualify for sealing, and these will be taken into account in setting minimum standards.

TABLE 9: Intervention Levels for Sealing Gravel Roads

Traffic EQ AADT	Seal Width
75 - 300	6.0 m
> than 300	7.0 m

Two traffic counts are required at each location, one taken during peak traffic such as wheat carting and one in the off peak period. The EQ AADT is estimated by weighting the counts using estimated periods of peak and non-peak traffic.

Bridges

The Asset Preservation Model makes provision for annual bridge maintenance, but not for major maintenance and replacement of bridges. The reason for this is that the Commission makes Special Project grants for major maintenance and replacement of bridges. These grants are matched with a one third contribution from MRWA.

The allowance for annual maintenance is based on deck area.

Traffic Control Devices

Provision for annual maintenance of traffic control devices is included in the allowance for road maintenance.

Growth in the Road Network

The different rates at which local governments' road networks grow, are taken into account through updated road statistics that are used every year.

Road Costs

The reliability of the Asset Preservation Model depends on realistic unit costs and work standards.

The State is divided into 21 regions to properly reflect the main cost differences within the State. They were identified using the Commission's cost adjustors, which take into account the effect of location, climate and terrain; and a report Environmental Regions of Australia[3] which divided the State into regions based on climate, landform, lithology, soils etc.

Costs for each region were reviewed in 2019-20 with information provided by local governments. The costs currently used by the Commission are based on 2019 prices, adjusted in subsequent years using the ABS road and bridge construction price Index for WA. This ensure that the road costs used in the model each year are kept current and reflect inflationary movements. A 20.7% adjustment has been applied to the 2019 costs used in the 2023-24 asset preservation model. Updated local government unit rate costs will be sought via a survey in late 2023.

[3] 'Environmental Regions of Australia', Department of Home Affairs and Environment, 1983, AGPS, Canberra.

Cost Adjustors

The regional costs reflect regional factors such as isolation and climate that influence road costs. For example, the costs obtained from the Kimberley shires reflect the cost of labour, plant and transporting bitumen to the region. However, there are differences within a region that affect standards and costs, such as the distance that gravel has to be carted and terrain.

Four cost adjustors have been included in the model to take these differences into account. These factors are:

- The distance that gravel has to be carted for re-sheeting gravel roads and reconstructing sealed roads
- Soil conditions which affect the thickness of sealed pavements
- Terrain
- Salt.

Each of these cost adjustor factors has been calculated, using quantitative data. They are discussed in the next section.

Cost of Pavement Materials for Sealed Roads

The cost of pavement materials varies considerably depending on whether they are bought from a supplier or obtained from a local government controlled gravel pit.

The distance that pavement materials are carted has a big impact on road costs. The distance varies from 5 km to 50 km. These distances and the amounts paid for the materials were obtained from a questionnaire sent to all local governments. A model was developed to estimate the cost per cubic metre of sub-base and base course materials delivered and placed on the road for every local government.

It was found that in the metropolitan area pavement material costs depend on individual contractual arrangements rather than geographical factors. Average costs were therefore used for the metropolitan region. Elsewhere, however, individual costs were used for each local government.

Pavement Thickness for Sealed Roads

Pavement thickness has a significant influence on reconstruction costs. Evaluating pavement thickness requires data on soil strengths and traffic volumes.

Data on soil types was obtained from the report 'Biophysical Attributes of Local Government Areas'[4]. The soil types were based on agricultural classifications rather than their suitability as a road subgrade. The Main Roads Materials Engineering Branch estimated design Californian Bearing Ratios (CBR) for each of these agricultural classifications, using CBR records which were available for many of the soil types in WA.

[4] 'Biophysical Attributes of Local Government Areas', Department of Home Affairs and Environment, 1983, AGPS, Canberra.

The CBR is a measure of the bearing capacity of a soil obtained from a standard soil penetration resistance test.

The Materials Engineering report[5] identified four ranges of design CBRs.

1. CBRs less than 5
2. CBRs between 5 and 10
3. CBRs between 10 and 15
4. CBRs greater than 15

The design CBRs take rainfall and drainage conditions into account. The Equivalent Standard Axles (ESAs) in the table below were used to calculate pavement thicknesses. The ESAs were estimated from information supplied by local governments and Main Roads. They were based on small samples and will require refinement in the future. However, as fairly large changes in ESAs are required to make an appreciable change to pavement thickness, the ESAs in the table below can be used with reasonable confidence.

TABLE 10: Equivalent Standard Axles for Local Government Roads

Road Type	Equivalent Standard Axles (ESA)	
	Metropolitan	Country
Roads in Built Up Areas		
Residential Streets	60 000	30 000
Local Industrial and Distributor Roads	2 000 000	800 000
Roads Outside Built Up Areas		
Local Roads	400 000	400 000

Pavement thicknesses were calculated using Australian Road Research Board report ARR 150[6], and Main Roads Engineering Road Note No. 9[7].

Terrain

Information on terrain, obtained from a report 'Physical Attributes of Local Government Areas', gave the percentage of each local government area in each of four terrain categories - plains, undulating, rolling and hilly.

Analysis of the questionnaires on road costs indicated the effect of terrain on the costs of forming a road would be:

[5] Materials Engineering Report No, 92/25 M. 'An Estimation of Subgrade Soil Strengths of all Local Government Authorities in Western Australia', 1992, Main Roads Western Australia, Perth.
[6] Research Report ARR150 'Structural Design Guide for Residential Street pavements; Preliminary Draft', 1987, P J Mulholland, ARRB, Melbourne.
[7] Engineering Road Note No. 9, 'Procedure for Thickness Design of Flexible Pavements' 1988, Main Roads Western Australia, Perth.

TABLE 11: Effect of Terrain on Road Costs

Terrain	Effect on Costs
Flat	1.0
Undulating	1.2
Rolling	1.4
Hilly	1.6

Based on this information, cost adjustor factors for terrain were calculated. The cost adjustor factors vary between 1.0 in shires that are predominantly flat to 1.6 in Shires that have extensive hilly areas. These were applied to the cost of formation in the reconstruction of sealed roads.

Salt

It is well known that roads built in salt affected areas cost more to maintain and do not last as long as roads elsewhere, but there is no quantitative information available to the Commission as to the increased costs and how long salt affected roads will last. Some local governments estimate that the presence of salt reduces road life by up to half. Discussions with MRWA and local government engineers resulted in agreement that a reduction of a third would be more realistic, and this reduction has been used in determining a cost adjustor factor. The estimated effect of salt is shown in the table below.

TABLE 12: Effect of Salt on Road Life

	Normal Life (Years)	Life in Salt Affected Areas (Years)
Unsealed gravel pavements	12	8
Sealed gravel pavements	45	30
Seal	15	10

Adjustment factors were formerly calculated for each local government using satellite based data obtained in 1998 from the Department of Land Administration – Land Monitor Project. The project measured the area of land affected by salt using satellite imagery. Some 1.2 million hectares are affected and the projections were that the affected area would double in the next 15 to 25 years.

Updated satellite data from 2018 has now been analysed by the Department of Primary Industries and Regional Development (DPIRD). The Commission's previous factor was based on the percentage of salt affected land in each local government. The new DPIRD analysis is based on the percentage of roads in each local government that are salt affected.

Given the extent that the salt affected land has increased across the state, it is reasonable to translate this into higher costs in the Asset Preservation Model. The salt adjustment factors were applied to all gravel and sealed roads, impacting on the cost of maintenance and the cost of re-gravelling and resealing and reconstructing sealed roads (including kerbs and drainage).

Work Standards in the Model

Road works which have the largest effect on asset preservation needs are reconstruction and resealing of sealed roads, re-gravelling of gravel roads and reforming formed roads. Work standards for these operations were based on road engineering practice and were adopted after discussions with local government and MRWA engineers. These work standards are set out below:

Resealing - Aggregate Seals

A resealing frequency of 15 years was used throughout the State, except in the Pilbara and Kimberley Regions where 12 years was used.

Resealing - Asphalt Seals

The thickness and frequency of asphalt reseals are shown in the table below.

TABLE 13: Standards for Resealing Asphalt Roads

Category	Thickness (mm)	Frequency (Years)
Residential Streets	25	25[(1)]
Local Industrial and Distributor Roads	30[(2)]	20

[(1)] In the Pilbara and Kimberley the frequency for residential streets was reduced to 20 years.

[(2)] Outside the metropolitan area a thickness of 25mm was used for local distributor roads.

Re-gravelling of Gravel Roads

The model recognises that part of the gravel pavement is lost each year through the wear of traffic, road grading and wind and water erosion, and makes provision for periodic replacement of the gravel. Estimates of how frequently re-gravelling is necessary, varied from about 6 years to 25, depending mainly on traffic. The model provided for all gravelled roads to be re-gravelled every 12 years to a thickness of 100mm.

Gravel and formed roads in pastoral and mining areas and on the fringes of the agricultural area are of a low standard. In order to provide for improvement of the standard of these roads, the allowance for re-gravelling was increased by 30 percent in pastoral and mining areas and 10 percent on the fringes of the agricultural area.

Reformation of Formed Roads

Formed roads lose their shape through traffic and repeated road grading and eventually reach the condition where the side drains are filled with material graded off the running surface. Roads in this condition present drainage problems and are difficult to maintain. Reformation is the process of restoring the raised formation and side drains. The Model provided for all formed roads to be reformed every five years.

As with the gravel roads, the allowance for reformation was increased by 30 percent in pastoral and mining areas, and 10 per cent in the fringe areas to allow for improvement of the standard of formed roads.

Reconstruction of Sealed Roads

Extensive consultation with Main Roads and local government engineers led to the adoption of the following road life criteria for sealed roads:

1. 45 years for sealed local government roads outside built up areas.
2. 45 years for local distributor roads.
3. 45 years for residential streets outside the Metropolitan area.
4. 55 years for residential streets within the Metropolitan area.

The longer life for residential streets in the Metropolitan area is because these streets carry very little heavy traffic and have very high standards of construction. The residential streets outside the Metropolitan area also have little heavy traffic but have been built to lower standards.

Minimum Standards

An earlier criticism of the Asset Preservation Model was that it favoured local governments with highly developed road networks and discriminated against those which were not able to develop their roads adequately.

The Commission addressed this criticism by using minimum standards that were assigned to each road type. Local governments that fell below the minimum standard had their asset preservation assessed on the minimum standards, while those above the minimum standards had their asset preservation assessed on their actual standards.

There are two sets of minimum standards, one for roads inside built up areas, and one for roads outside built up areas.

Minimum Standards for Roads within Built up Areas

Residential streets and other local roads in built up areas generally have similar functions throughout the State, so it is possible to set state-wide minimum standards for these roads. For example, if 97% of residential streets in the metropolitan area are kerbed, it would be reasonable to set a standard that 97% of all residential streets in the State should have kerbing.

Using this principle for roads inside built up areas, the average standards for the inner metropolitan area were used as the minimum standard throughout the State. The average width and the percentages in the table below were calculated for the inner metropolitan area. These were applied as a minimum standard for all gravel and sealed roads in built up areas throughout the State.

TABLE 14: Minimum Standards for Roads within Built Up Areas - Residential Streets

Type of Road	Standard
Seal	100%
Minimum Seal Width	7.4m
Asphalt Seal	98%
Kerbing	97%
Longitudinal Drainage	64%

In the case of local distributor roads no attempt was made to specify a minimum width, because the variations in traffic volumes are so great on these roads that the appropriate width could vary from a single 6 metre carriageway to dual 11 metre carriageways. The model is based on existing widths.

Minimum Standard for Local Roads outside Built up Areas

Roads outside built up areas vary from quite heavily trafficked sealed roads to tracks servicing isolated Aboriginal communities and farms. Ideally traffic volumes are needed to define minimum standards. As traffic volumes are not universally available an alternative method was used.

For the purpose of determining minimum standards, the State was divided into regions, each composed of local governments with similar characteristics and development. In doing this, population density and geographical factors were taken into account. Percentages for the five road types, shown in the table below were calculated for each region and applied as minimum standards for that region.

TABLE 15: Criteria used in Applying Minimum Standards to Local Roads outside Built Up Areas, South West Region

Type of Road	Percentages are calculated for each region
Sealed roads - narrower than 4.6 m	6.8%*
Sealed roads - wider than 4.6 m	47.2%*
Gravel roads	40.8%*
Formed roads	3.6%*
Unformed roads	1.4%*

*Percentages vary between each region

The Commission is conscious of the subjective nature of the minimum standards for roads outside built up areas. A more objective method of defining minimum standards would be based on traffic volume, except for very lightly trafficked roads where soil conditions, and not traffic volumes, dictate standards. However, little progress can be made until comprehensive information on traffic volumes becomes available.

Distribution of Funds

The Commonwealth road funds (other than the seven percent allocated to special projects) are distributed among local governments in proportion to their asset preservation needs.

In 2023-24, $146.263 million was allocated in accordance with road asset preservation needs. The total asset preservation needs for WA were $1,055.15 million, which meant that local governments received 12.9 percent of their assessed asset preservation requirement.

Transparency

One of the Commonwealth Government's requirements was that the method of distributing the funds should be 'transparent' to local government. This requirement is met by providing every local government with a simple statement showing how its asset preservation needs were calculated. This statement allows local governments to work through the assessments for their local governments and make submissions to the Commission if they feel that their needs have not been correctly assessed.

In addition, further information on the allocation method is available on the Commission's website to assist with improving the sectors understanding of the asset preservation model.

Consultation

Public Hearings

In accordance with the *Local Government (Financial Assistance) Act 1995*, the Commission undertakes public hearings with local governments. The hearings consist of a formal presentation about the operations of the Commission. During the hearing, local governments are given the opportunity to present submissions to the Commission on their grant determination and any issues relevant to the grants determination process.

The hearings facilitate discussion between councillors, staff, members of the public and the Commission. The Commission holds public hearings with each local government at least once every five years. Through these hearings, the Commission can gain a greater understanding of the issues affecting local governments and their capacity to provide services and facilities to their communities.

Special Hearings

In addition to public hearings, local governments can request a special hearing with the Commission. This allows local governments to present their case for amendments to the grant methodology.

Submissions

Local governments in Western Australia are given the opportunity to highlight to the Commission any cost adjustors they face in the provision of local government services which may result in a higher cost of delivering local government services. The Commission then decides on whether the circumstance warrants further recognition in the methodology. Additionally, if a local government feels an improvement can be made to the methodology, this can also be suggested through submissions.

Submission Guidelines

Local governments may prepare a submission to the Commission for consideration for the following year's grant determination. This may be presented during the Commission's scheduled visiting program or posted/emailed to the Commission for consideration.

Submission Structure

Before making a submission, local governments should give consideration to:

i. Balanced Budget Detailed Calculations

   This document contains all the equations, key indicator variables and cost adjustor weightings used in the calculation of revenue and expenditure standards in the determination of equalisation grants.

ii. Principles and Methodology Publication

   This Report explains in detail the complete methodology of grant determinations for each Standard, including descriptions of recognised cost adjustors.

iii. The Commission's Annual Report.

   The Annual Reports detail changes made to the grants determination methodology since the publication of the Principles and Methods Report.

iv. Calculation of a local government's asset preservation needs.

   This data sheet is prepared to show how asset preservation needs are calculated. It itemises road statistics, costs and minimum standards for each local government, and can be requested from the Commission.

Publications are available from the Commission's website or Commission staff can be contacted to receive the most recent publications.

The following submission structure is suggested as a guideline.

Part A – Cover Page

- Name of Local Government
- Name of Chief Executive Officer
- Date submission lodged.

Part B – Specific Cost Adjustor Claims

Part B should detail the local governments claim.

This section will include full documentation supporting each specific claim and is expected to include financial and non-financial information supporting the claim.

a) The local government may make a claim regarding the Commission's revenue or expenditure standards.

b) The local government may claim a cost adjustor currently not recognised within the Balanced Budget method.

c) Claims for amendments to cost adjustor values or new cost adjustors must be justified with supporting figures. Cost adjustors apply where local governments have inherent problems that cause, or could cause, revenue to be lower than, or expenditure to be higher than, an average standard of revenue and expenditure.

The local government must clearly identify the issue it is seeking recognition/amendment of with as much information as possible provided to support the claim. Particularly for claims of new cost adjustors, this includes identifying a state-wide available data set. It is up to local governments to provide sufficient evidence or reason for the Commission to investigate an issue.

Expenditure in excess of or revenue below the standard level of provision of service does not necessarily imply a cost adjustor. A local government may have a policy to provide a below-average standard service (the rate imposed is less) or an above-average standard of service (higher expenditure level). Thus, where possible, quantification of a cost adjustor should include evidence of the cause of the problem.

For example, a local government may have a very high level of expenditure in some areas because it has a significant number of houses owned by non-residents who use them on a seasonal basis. The additional seasonal population could impact on expenditure classifications such as Governance, Law Order & Public Safety, Community Amenities, Transport, etc. A local government in this situation should quantify the number of houses owned by non-residents and calculate the additional cost to local government of servicing these dwellings for each standard where it is thought to impact.

Submission on Local Roads Funding

There is no formal structure for Submissions on the local roads funding component.

Where a local government wishes to raise an issue, general comments are sufficient, provided that the claims are supported with statistics and verifiable data. For example, if the local government considers that a particular unit cost in the model used by the Commission is inadequate, it should submit details of actual expenditures to back up its claim.

Information Provided to Local Governments

The Commission has a policy of transparency in its operations and in the provision of information used in the grants determination process. Each year copies of the Financial Assistance Grant outcomes are provided to each local government.

Any changes or proposed changes to the methods of grant determination are detailed in the Annual Report, and in subsequent editions of this publication. The Commission has a policy of consultation with local government where major changes to the methodology are being considered.

GOVERNMENT OF WESTERN AUSTRALIA

Department of
Local Government, Sport and Cultural Industries

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Western Australian Local Government Grants Commission Methodology for the Distribution of Commonwealth Financial Assistance to Local Governments in Western Australia is available for viewing and download from the Department of Local Government, Sport and Cultural Industries website: www.dlgsc.wa.gov.au

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