Regional Responsibility & Non-Resident Impacts: The Bigger Picture

Discussion Paper DP20-01

January 2020

STATE GRANTS COMMISSION

Tasmanian Government

Contents

Executive Summary

Initial review of the Regional Responsibility Cost Adjustor and consultation with councils

The State Grants Commission commenced this review in 2018 as a periodic review of the Regional Responsibility Cost Adjustor (CA) (*Discussion Paper DP18-01 - Regional Responsibility - The obligations that come with being a major regional hub)*. This review looked at matters relating to the logic of the current Regional Responsibility CA, and the basis on which the judgement of weightings assigned to councils have been determined. The Commission has a strong preference for independent measures and data sources to inform its modelling. However, the 2018 review failed to identify any independent measures or data sources that were available for many municipalities on which to base or assign weightings used by the Regional Responsibility CA in the Commission's Base Grant Model (BGM). The Commission formed the view that there were unresolved questions in relation to both definition and calculation within the cost adjustor.

As a result of this initial review and research, the Commission determined that a more detailed review of the broader impact of non-residents needed to be undertaken and that the review needed to consider options for a broader replacement indicator of impact.

Further review and consultation with councils on non-resident impacts

As a consequence, the Commission then engaged with councils in 2019 about the broader impacts of non-residents on councils (*Conversation Starter CS19-02 - Provision of Services to Non-Residents*). The Commission's intent was to have more extensive conversations with councils as to the specific impact on council operations of the various streams of non-residents in their respective municipalities. While councils responded by continuing to report a range of areas in which they were impacted by non-residents (e.g. waste management, public facilities, sport and recreation facilities; roads), councils were generally unable to quantify these impacts in a way which would help the Commission to independently model the related disadvantage.

As a result of the conversations, the Commission had not been able to progress a more rigorously defined or data based measure of impact of non-residents on councils.

Other Commission observations

During this review, the Commission has also had the opportunity to visit many councils, and has seen first-hand some of the improvements to or new facilities that have been built in most municipalities. While the majority of facilities have been sports focused, some facilities have been more broadly recreationally or services oriented. The Commission has also heard how some of the funding of these facilities has been through a range of grant programs, and often the grant programs include assessment criteria which focus on benefits of the facility to the region rather than just the municipality.

The next stage

While most councils are impacted by non-residents to differing degrees and directions, the current Regional Responsibility CA is not well defined and does not provide a measurement system which is capable of being effectively applied across all councils. While the Commission understands that it needs to apply judgement where necessary, the Commission is of the view that the expenditure re-allocative "power" of the current Regional Responsibility CA is too large for a measure based entirely on judgement.

Therefore, the Commission has determined that the current manner of recognising the impact of non-residents on councils using the Regional Responsibility CA needs to change.

The Commission is now canvassing four scenarios for discussion with councils. These are:

1. review the weightings based on current facilities and/or reduce the redistributive effect/range factor used by the current Regional Responsibility CA (i.e. redistribute less funding/change how the Regional Responsibility CA impact is distributed);
2. introduce a special expenditure allowance for special cases;
3. review the impact of other non-resident type cost adjustors the Commission currently uses; and
4. design and adopt a new Regional Service Industries cost adjustor (e.g. one based on employment in service industries, similar to the approach used by the Victorian Grants Commission).

The Commission is seeking feedback from councils on the scenarios proffered in this Discussion Paper. While feedback is sought on the scenarios, the Commission is currently favouring the fourth scenario as the most logical and defendable way of measuring impacts on councils in order for the Commission to assess relative needs in accordance with the major criteria of its decision making, that is, horizontal fiscal equalisation (HFE)[1] and effort neutrality[2].

While the Commission is currently consulting on this proposed methodology change, the earliest implementation of any changes to the BGM methodologies arising from this review would first apply in the making of the 2021-22 Financial Assistance Grant allocations.

[1] HFE 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.

[2] An effort neutrality/policy neutrality approach is to be used in assessing expenditure requirements and revenue raising capacity of each local governing body. This means as far as practicable, policies of individual local governing bodies in terms of expenditure and revenue effort will not affect the grant determination.

Whilst encouraging written feedback from councils by 20 January 2020, the Commission is very aware of the complexity of this issue and is therefore willing to have verbal discussions on the proposal as part of the 2020 hearings and visits.

The closing date for written submissions after the hearings and visits is Friday, 28 February 2020.

Following feedback from councils and assuming the Commission is in a position to enable decisions to be made, the Commission expects to publish its preliminary position on this issue later in 2020. This will provide councils with a further opportunity to comment before any solution is implemented.

Review Context

The State Grants Commission (the Commission) is an independent statutory body established under the *State Grants Commission Act 1976* and is responsible for recommending the distribution of Australian Government and State Government funds to Tasmanian local government authorities. To ensure that the distribution of available funds is as equitable and contemporary as possible, the Commission continually monitors council practices and updates assessment methods and data where appropriate.

As part of the Commission's review process, and in accordance with the Commission's Work Plan, the Commission has been reviewing the impact of non-residents on councils. This initially commenced as a review of the Regional Responsibility CA, but has subsequently broadened to become a bigger picture review of the Commission's cost adjustors that are designed to account for the relative impacts that councils experience as a consequence of having to service populations that are larger than their normal residential base as a result of certain characteristics or the location of their municipality.

The Commission has prepared some scenarios as to how it could progress a solution to this issue and these are detailed in the following pages. The Commission is now seeking council feedback on the scenarios canvassed in this paper.

The Commission, in deciding how it operates and applies the National Principles, has developed its own set of principles to guide its decision making. These are the State Principles, which are detailed in Attachment 2 of the Commission's methodology publication: *Financial Assistance Grant Distribution Methodology*. One such principle relates to Data quality and sources, and has been replicated below for the purposes of understanding a key factor in the Commission's objectives from this review.

- **Data quality and sources**

The Commission takes the accuracy and consistency of data very seriously and actively seeks to increase the integrity of the data used within its assessments. The Commission has a strong preference for independent measures and data sources to inform its modelling, while being able to exercise broad judgement in its deliberations in relation to sources of data.

The Commission actively seeks to increase the integrity of the data used within the Commission's assessments and ensure its methods are contemporary and equitable across councils. The Commission may exercise its judgement and adopt alternative information sources where it considers such to be justified.

Background - Non-Resident Impact Review to date

Non-Resident Impact Cost Adjustors in the Base Grant Model (BGM)

The Commission assesses the relative needs of councils in Tasmania using a model it calls the Base Grant Model (BGM). The BGM is designed to comply with the National Principles for the distribution of funding provided by the Australian Government, the primary principle being HFE.

The BGM includes all of the formulae and processes by which the Commission determines each council's relative need for Financial Assistance Grant funding. The BGM, amongst other things, applies cost adjustors to each council's "standard" expenditure to convert it to a standardised expenditure for each expenditure category for each council. Each cost adjustor aims to assign a graded ranking based on each council's particular circumstances and thus the relative advantage or disadvantage for the particular issue under consideration. Collectively, these individual expenditure assessments combine to inform the Commission of each council's total expenditure requirement, and helps determine each council's relative need for financial assistance, and thus the relative share in the Financial Assistance Grant funds made available by the Australian Government.

The Commission currently recognises eleven cost adjustors in its BGM. These cost adjustors can conveniently be broken into groups of issues that they aim to address or measure - namely resident services type cost adjustors, economies of scale type cost adjustors, non-resident services type cost adjustors and geographical type cost adjustors. For the purpose of this paper, the focus is primarily on the Commission's non-resident type cost adjustors, as follows:

Non-Resident Services type Cost Adjustors

Absentee Population: This cost adjustor recognises a council may have to support a much higher seasonal population when "absent" property owners move back (e.g. holiday homes). This cost adjustor adjusts for the additional "population" based on unoccupied dwellings that must be serviced within a municipality, when the additional population does not live in that municipality on a permanent basis.

Worker Influx: This cost adjustor recognises that some council services may have to include workers whose employment brings them into the municipality from other municipalities. The Worker Influx CA is designed to reflect the additional costs imposed on municipalities that have significant daily net influxes of non-resident workers.

Regional Responsibility: This cost adjustor recognises that councils may actually have responsibility for a wider population than just the residents within its boundaries. This cost adjustor is applied to the relevant expenditures of those municipalities that provide particular services recognised as being not only for their own residents but also for servicing the residents of surrounding municipalities.

The weightings assigned by the Commission for this CA are based on its judgement and are not based on reliable and comparable statistical data.

Tourism: This cost adjustor recognises that tourist numbers reflect a larger population than the number actually resident within the municipality and recognises that councils generally incur additional costs as a result of tourist influx through increased use of council resources and infrastructure.[3]

The current matrix of the application of these cost adjustors across the various expenditure categories in the Commission's BGM is as follows:

TABLE 1: COMPOUNDED COST ADJUSTORS

	<--ABSENTEE POPN	<--REGIONAL RESPONSIBILITY	<--TOURISM	<--WORKER INFLUX
Largest CA shift	33.8%	34.2%	8.80%	5.9%
GENERAL ADMIN	1			
HEALTH HOUSING & WELFARE				
LAW ORDER & PUB SAFETY			1	
PLANNING & COMM AMENITIES	1		1	1
WASTE MGT & ENVIRONMENT	1		1	1
RECREAT & CULTURE	1	1	1	1
OTHER				

[3] The Commission had initially decided to phase out the Tourism Cost Adjustor from the BGM due to loss of a data source. The phase out was to be over two years, commencing from the 2018-19 Financial Assistance Grant Allocations. The first year of the phase out occurred in 2018-19 by reducing the redistributive effect by 50 per cent. In light of the Commission's review into the impact of non-residents, the Commission has suspended the phase out until after it considers the outcomes resulting from this review. This CA will require further review in the future.

Details of the redistributive effect of each of these cost adjustors had in the 2019-20 BGM are provided in Appendix 1.

The challenge

Determining the extent to which a council caters for its own people, as well as people coming into a municipality from surrounding municipalities or other locations (e.g. interstate or overseas), has been a contentious issue for many years. Every Local Government Grants Commission (LGGC) in Australia has grappled with this issue due to the existence of obvious regional patterns where certain councils play a greater role in providing regional infrastructure and services than others. Sometimes these regional patterns exist as a result of building on a natural features of a location or area and some are due to services and facilities developed by the relevant council. However, finding measures of such impacts, or drivers for regional responsibility expenditure have remained elusive. Various approaches have been adopted by LGGCs seeking to capture this impact as best they can, but in recent times several LGGCs have ceased to apply such measures due to the lack of a suitable objective measure that captures that part attributable to "responsibility" and that part attributable to policy decisions.

The 2018 Review - Discussion Paper DP18-01 - Regional Responsibility - The obligations that come with being a major regional hub

Discussions held in 2018 relating to the Commission's current allowance for Regional Responsibility resulted in little agreement among councils as to how to define and quantify the obligations of a council providing services to cater for a regional area. Discussions with councils indicated that the logic behind the current Regional Responsibility CA, the methodology used in the assessment (including the weightings currently applied) and current trends and developments in the delivery of regional services meant a review was needed. The options suggested as part of that discussion paper did not receive support from councils.

As a consequence, the Commission decided it needed to consider the issue from a broader perspective.

The 2019 Conversations - Conversation Starter CS19-02 - Provision of Services to Non-Residents

The 2019 discussions were generally more focused on impacts than was the case in 2018. However, with a small number of exceptions, specific measurement of the impacts of non-residents on councils in most cases was missing, with councils generally only able to provide anecdotal evidence that service provision needed to be higher, but unable to separate the impacts between the base service level to meet their residents and the extra service level required for the non-residents.

However, the Commission did find that the 2019 discussions provided some new examples of non-resident impacts, including:

- costs for improving intersections and council roads (the example cited related to an intersection that did not present a challenge for local residents, but traffic accident statistics clearly indicated tourists had problems negotiating it, and also local roads which lead to a tourism attraction);

- the need to provide car parking capacity in close proximity to the CBD, boat ramps, marinas, bus terminals and pontoons at both ends of popular travel links;
- support for festivals and events and the need for councils to provide temporary services for a large influx of non-residents attending such events; and
- forward planning requirements, with one council, for example, acquiring land adjoining State government owned facilities to facilitate future infrastructure expansion plans for the State Government.

Recent upgrades to council regional facilities

The Commission notes that new and recent upgrades to council infrastructure continue to exhibit capacity beyond the size of the council where the infrastructure is located. Over the past three years, the Commission has had the opportunity to see a number of new facilities or plans for new facilities across all areas of the State. Generally these have been recreation-based facilities. As part of those tours, councils advised the Commission that frequently the grant application process that often underpin the financing of a significant portion of, and results in the creation of, such "regional" facilities, actually include criteria that focus on projects providing benefits to the region rather than just the applicant council. Councils are building major infrastructure projects which are designed not just to stimulate local activity, but are also designed to suit and cater for a regional catchment area, and the expected economic benefits from the project. One council mentioned approximately 25 per cent of users of a recently constructed facility are actually residents of an adjoining council.

2020 Review - options

Based on the feedback to date on this issue and no clear alternative, the Commission's 2020 review into regional responsibility and the impact of non-residents is now focusing on the relationship between and the level of impact of the current Regional Responsibility CA and the Commission's other non-resident type cost adjustors, the expenditure categories to which these apply and their redistributive impacts both individually and collectively.

For the 2020 review, the Commission has provided information on the following scenarios:

Scenario 1: Review weightings and impact of current Regional Responsibility CA;

Scenario 2: Provide a Special Allowance for certain facilities;

Scenario 3: Review the impacts of other non-resident type cost adjustors; and

Scenario 4: Replace the Regional Responsibility CA with a new "Regional Service Industry" based cost adjustor.

The Commission is currently favouring a solution in a form similar to Scenario 4, subject to council feedback.

In the absence of other data, the Commission notes that it is likely that measures of relative disadvantage associated with non-residents will be based on a "people-movement" solution, rather than costs incurred by councils.

The Commission notes that the Tourism CA phase out process has been suspended and will remain unchanged pending the outcome of this review and the continued examination of alternative tourism activity data sources.

Scenario 1: Review weightings and impact of current Regional Responsibility Cost Adjustor

The Commission has observed that the current Regional Responsibility CA has deficiencies in terms of both definition and measurement. The Commission has been unable to find data-driven measures based on people movements or specific council expenditure data which might replace the current infrastructure basis for this cost adjustor.

Scenario 1 considers whether, in the absence of other changes to the BGM, the application of the Regional Responsibility CA might be improved by:

a) A detailed and systematic review of infrastructure weightings across local government areas (LGA); and/or

b) A reduction in the impact of the Regional Responsibility CA to reflect its limitations.

<u>a) Review of the current CA weightings</u>

The current Regional Responsibility CA design is based on weightings traditionally focused on large sporting and recreational facilities and on a significant degree of judgement by the Commission.

The weightings used in the current Regional Responsibility CA were last determined by the broad judgement of the Commission based on an assessment of significant infrastructure in 2012-13. Periodically, in order to make its judgements on the weightings to use in the CA, the Commission has examined actual expenditure information provided by councils in relation to council operated infrastructure that, in the council's opinion, provides a regional benefit. The extent of the "premium" awarded by the Commission depended on the infrastructure provided and the perceived regional importance of that infrastructure. Typically this infrastructure has been recreation or culturally based infrastructure, but may include other forms of infrastructure. Currently six councils are recognised as providing services of a regional nature. These are Burnie, Clarence, Devonport, Glenorchy, Hobart and Launceston.

In recent years, several of these councils have upgraded and improved the facilities that are typically described as providing regional services (e.g. Launceston's Queen Victoria Museum & Art Gallery (QVMAG) and Launceston Leisure & Aquatic Centre, Burnie's Aquatic Centre, Devonport's Splash Devonport Aquatic & Leisure Centre, and Clarence's Blundstone Arena). Other councils have also invested in, or are investing in, similar type facilities, such as the Dial Regional Sports Complex near Penguin (Central Coast), the upgrade of the sporting grounds in Prospect (Meander Valley), the Blue Tiers Mountain Bike Track (Dorset and Break O'Day) and the Twin Ovals at Kingston (Kingborough). Other regional facilities also include the Windsor Community Precinct which includes both sporting facilities and a regional medical services hub (West Tamar) and the Centre for Heritage in Oatlands (Southern Midlands), which helps preserve heritage skills nationally. This is by no means a complete list of the developments across the state.

A complete review of weightings in the CA would involve a review of all facilities in all councils and an assessment of "regionality" for each facility.

In addition, each facility's cost would need to be assessed to determine how much of the cost was attributable to responsibility to the region and how much of the cost might relate to the council's chosen policy direction.

The Commission sees a number of challenges with this scenario:

a) Identifying infrastructure to be included/excluded - Any review of the Regional Responsibility CA's underlying infrastructure strikes the same problem as the current Regional Responsibility CA. Without a sound underlying definition, a review of infrastructure across councils, while helpful in updating the Regional Responsibility CA for current facilities, will continue to require judgement based on imprecise parameters as to which facilities (or portions of facilities) are provided due to regional responsibilities.

b) Defining expenditure to be included/excluded - An additional challenge with this Scenario is identifying the amounts of annual expenditure which represent expenditure based on the responsibility to provide services for the region, as opposed to the portion of the expenditure that results from policy decisions of the council to create and operate a service over and above the needs of its own population.

The Commission needs to comply with the National Principle referred to as "Effort Neutrality" which requires the Commission to exclude the impact of policy decisions of LGAs in performing its assessment. The difficulty for the Commission in applying this scenario is that the policy choice of a council to construct a particular level of regional infrastructure would directly impact on the grant outcomes within the assessment, and arguably contravene this National Principle.

<u>b) A reduction in the impact of the CA to recognise its limitations</u>

An alternative, related option is to reduce the impact of the Regional Responsibility CA to reflect the limitations in its construction. The Commission does recognise that some judgements need to be made to achieve a consistent funding model. A reduction in the redistributive power of the Regional Responsibility CA due to the nature and amount of judgement to be exercised might better place this Regional Responsibility CA in terms of the overall BGM.

While an option for consideration, this option retains the observed limitations and weaknesses related to identification of facilities and the "essential" expenditure related to each facility as currently belies the current Regional Responsibility CA, albeit with a reduced impact.

The Commission's preference would be to find a better data-based CA.

Conclusion:

The Commission continues to hold the view that the current form of recognising the relative expenditure effect of non-residents on councils by way of the Regional Responsibility CA, no matter what judgements it makes about financial impacts, poses difficulties in terms of both definition and measurement. Finding a better data-based measure would be a preferred option.

Scenario 2: Special Allowance for certain facilities

Over the years, the Commission has received a number of submissions from councils relating to the provision of services and facilities for the benefit of their own and other populations. An example of this is the Launceston City Council stating that the Commission's Regional Responsibility CA does not reflect current circumstances, as Launceston bears a greater financial burden for the provision of regional services that the CA currently allows. Two significant infrastructure assets that Launceston manages are the QVMAG and the University of Tasmania Football Stadium at York Park.

It is likely that several other councils could put forward the same argument about the "non-voluntary" services and facilities required to support local and external populations.

The proposal for a "special expenditure" classification recognises that the Commission commences its BGM assessment with an average per capita expenditure calculation for all Tasmanian councils.

Proposals for a special expenditure category suggest that the Commission might effectively exclude from its calculation of per capita state-wide Recreation and Culture expenditure the "exceptional" expenditure councils bear as a consequence of having to provide significant regional facilities. Following the application of cost adjustors to the standard expenditure figure (being the population multiplied by the state-wide average), the relevant expenditure would then be added back to the council's calculated standard expenditure.

Proponents of this approach argue that inclusion of expenditure of this "special" nature actually distorts the calculation of average capacity by including expenditure which is not relevant to most councils. The argument is that this expenditure should be excluded from averaging and then added only for those councils to which it applies.

It is likely that most other councils could also put forward similar examples about the "non-voluntary" services and facilities required to support local and external populations.

The Commission has considered this special allowance suggestion and sees a number of challenges with the approach.

a) Defining "special expenditure" - As already noted in this paper, the Commission has increasing observed that many councils now undertake projects which might once have been considered "unusual" or non-standard. This increasingly blurs the line of what should be regarded as "special case".

b) Defining expenditure to be excluded – A further challenge with this proposal is identifying the amounts of expenditure that should effectively be quarantined from the calculation as representing expenditure based on the apparent responsibility to provide services for the region, and that portion of the expenditure that results from policy decisions of the council to create and operate a service over and above the needs of its own population.

As already stated, the Commission needs to comply with the National Principle referred to as "Effort Neutrality" which requires the Commission to exclude the impact of policy decisions of LGAs in performing its assessment. The difficulty for the Commission in applying this scenario is that the policy choice of a council to construct regional infrastructure would directly impact on the grant outcomes within the assessment, and could contravene this National Principle.

c) Calculating average capacity calculation across the state - Application of a special expenditure adjustment would require the Commission to consider and catalogue a range of facilities or programmes across all councils with a view to justifying the exclusion of "special" expenditure from state averages. Apart from the practical difficulties involved in this, the concept produces effectively a "hybrid" or "modified" average which does not comply with National Principles. The National Principles of HFE require commissions to calculate an average standard across their LGAs. The Commission has concerns that a significant adjustment to averaging would be direct non-compliance with the HFE requirements.

Conclusion:

The Commission's preliminary decision is to not introduce a separate special recognition for "abnormal" expenditures due to the difficulty in defining such expenditures and recognising the difference between policy and unavoidable expenditure decisions, with the resultant issue this has in complying with the Effort Neutrality principle.

Scenario 3: Review relative impacts of other non-resident type cost adjustors

The Regional Responsibility CA is currently one of the most powerful cost adjustors in the Commission's BGM. The Commission has concerns about having one of its most powerful cost adjustors redirecting significant expenditure with little data of substance to support the movement, either in terms of population serviced or any clear delineation between what needs to be spent on average by a council to service its residents versus what is merely a policy choice of council to provide a service or facility.

As part of its consideration of scenarios for recognising the impact of non-residents on councils, the Commission has also considered the scenario which involves changing the strength of some or all of its other non-resident type cost adjustors. This scenario includes reducing the strength of the Regional Responsibility CA and/or increasing the strength of other non-resident type cost adjustors, including the possibility of ultimately removing the Regional Responsibility CA from the BGM and only using more data-based cost adjustors that are measuring similar issues. The options under this scenario include the potential that other cost adjustors might simply replace the Regional Responsibility CA entirely.

As this scenario involves infinite permutations of redistributive impacts and judgements regarding expenditure categories to which each cost adjustor is applied, the Commission regards the best way to assess this scenario is by considering the underlying fundamentals/theory and basis of the other non-resident type cost adjustors and what they are currently designed to capture, relative to the current Regional Responsibility CA.[4]

It would be possible for the Commission to review each of the following non-resident cost adjustors, looking at their basis, their existing rankings/weightings, redistributive effects and the expenditure categories to which they apply:

[4] Appendix 1 details the current non-resident type cost adjustors and their respective distributive expenditure effects according to the Commission's 2019-20 BGM. Note that the respective cost adjustors are applied across the different expenditure categories in accordance with the matrix detailed on Page 9 of this paper, and the impacts are not applied across all expenditure categories.

- Absentee Cost Adjustor;
- Worker Influx Cost Adjustor; and
- Tourism Cost Adjustor (Noting the data problems with this cost adjustor, the phase out having commenced but is currently on pause).

The Commission has not yet modelled the possible use of these cost adjustors as proxies for the Regional Responsibility CA but provides the following comments for discussion with councils:

<u>Absentee Population Cost Adjustor</u>

The Absentee Population CA can be viewed as having a slightly more property based focus, as it is aimed at adjusting for properties that require council services but would not otherwise be reflected in the population of a LGA due to the people being absent from the properties on Census night.

This cost adjustor primarily accounts for holiday residences by adjusting for the unoccupied residential dwellings that exist within a municipality as at Census night. This adjustment effectively recognises that a municipality needs to service an additional population that does not live in that municipality on a permanent basis. It corrects for a natural deficiency in population only data for determining the impact on councils of providing residential property style services to residents. As such, this cost adjustor focuses on residential dwellings needing to be serviced rather than other types of infrastructure or services a council needs to provide to its community.

The Commission notes that shack owners generally travel to and from the municipality more regularly and for generally a longer period (e.g. a few days or weeks) rather than the short stay/briefer service related visitors, which generally underpins the case for the Regional Responsibility CA.

It appears that residents from other LGAs coming into the municipal area tend to be the driver of "regional responsibility" rather than absent residents returning, albeit possibly only for short periods.

The Commission does not view the Absentee Population CA as a suitable proxy for Regional Responsibility CA, and as such, it would not be a replacement for the Regional Responsibility CA.

<u>Worker Influx Cost Adjustor</u>

The Worker Influx CA at a conceptual level has a similarity with the Regional Responsibility CA as they are both attempting to respond to issues councils experience due to people movement flows. Worker influx recognises the net number of workers who enter an LGA for work each day. As such, this cost adjustor also recognises that an LGA will need to support these non-residents with infrastructure and services. The Commission recognises that worker influx has some alignment with regional responsibility. However, there are more reasons for regional infrastructure and services expenditure than just worker movement. Non-residents go to other LGAs for many reasons including getting professional services, shopping, sporting and cultural events and other business and private reasons. As such, worker influx may be just one component of regional responsibility.

Thus, the Worker Influx CA may be a proxy for at least part of regional responsibility but its enhancement (either by increasing its redistributive effect or the expenditure categories it is applied) would not be a complete replacement for the Regional Responsibility CA.

Tourism Cost Adjustor

The Tourism CA recognises non-residents who temporarily reside in or visit a LGA and therefore use council services and facilities. While this cost adjustor also relates to non-resident impacts, the Commission has been unable (through reviews and discussion hearings) to identify a clear link between tourism data and particular council expenditure. Certainly, there has been no link proffered between tourism data and the types of facilities currently considered in the Regional Responsibility CA.

Thus the Tourism CA, while also relating to non-resident people flows, is unlikely to be a good proxy for the Regional Responsibility CA. In fact, the impact of tourists could be said to be quite distinguishable in terms of expenditures compared to other non-resident impacts[5].

Conclusion:

The Commission's preliminary view is that use of other "non-resident" cost adjustors, singularly or in combination, as proxies to permit removal of the Regional Responsibility CA is not a preferred scenario. While the Worker Influx CA would seem to capture some part of the impetus driving regional responsibility, it does not cover the full range on non-resident impacts inherent in the Regional Responsibility CA. The Absentee CA and Tourism CA, while reflecting the impact of non-residents, seem to reflect different impacts than those being recognised by the current Regional Responsibility CA.

The Commission's assessment should be based on drivers of costs. Councils' experience under other cost adjustors should be the basis for the decision concerning the strength of the other cost adjustors.

[5] In light of the ongoing feedback from councils on this issue, the Commission continues to recognise tourist impacts. The Commission has decided to suspend the phase out of the Tourism CA which initially related to the lack of contemporary and comparable LGA data. However, depending on feedback from councils as a result of this paper, the Commission may undertake further analysis regarding tourism impacts, the provision of tourism services/tourism employment and possibly also investigate how a tourism related cost adjustor might be incorporated into the Commission's Road Grant Model.

Scenario 4: Replace the Regional Responsibility Cost Adjustor with a new "Regional Service Industry" based cost adjustor

Another scenario the Commission has considered is exploring the possible replacement of the Regional Responsibility CA with a Regional Service Industry type cost adjustor. When undertaking the current non-resident impact review, the Commission has identified a similarity in the basis of the drivers behind the Regional Responsibility CA and the Worker Influx CA, albeit the reasons for entering the council area is different. That is, these two cost adjustors are attempting to respond to issues associated with regular people movement flows. Given the similarities, the Commission is investigating replacing both the Regional Responsibility CA and the Worker Influx CA with a Regional Service Industry type cost adjustor.

The Commission has undertaken detailed research and investigated the methodology the Victoria Grants Commission uses for its Regional Services CA (previously known as "Regional Significance" CA). While previous Commission reviews have also considered this question, in this paper the Commission is providing more details regarding how such a cost adjustor might be designed.

The Victorian Regional Services Cost Adjustor

The Victoria Grants Commission's Regional Services CA seeks to measure the 'supply' of all services within an LGA. A description of its construction and design is provided at Appendix 2. The Victorian Regional Services CA "recognises that some municipalities provide a range of services to a larger than average catchment area, increasing the demand on certain council services."[6]

The Victoria Grants Commission's Regional Services CA[7] uses a measure constructed from the proportion of people employed in service industries within a council area and its resident population. This is viewed as a good proxy for the extent to which a council area is a service

[6] Victoria Grants Commission, *Annual Report 2018-19*

[7] Victoria refers to its cost adjustors as disability factors. Essentially they are the same thing. Tasmania uses the name cost adjustor to accommodate the fact that there can be a relative advantage as well as a disadvantage.

centre for a wider population than just its residents. A significant regional centre would be expected to have a relatively large proportion of service industry positions, and a surrounding population would travel to access the available services. The more significant the regional centre, the more services that are provided and hence greater employment in those service industries.

This measure includes all service industry positions and not just those provided by councils. It would be expected that as the working service population within a council area increases, so the range of services provided by council expand and the level of council service provision increases.

The Victorian Grants Commission obtains industry of employment information for each LGA from Census data. Census data provides employment information broken down by the Australia and New Zealand Standard Industrial Classification (ANZSIC). At its most detailed level ANZSIC provides employment numbers from over 290 different industry classifications. However, the Victorian Grants Commission uses aggregated data to reduce the classifications to 19 industry divisions shown in the table below.

Table 2: 2006 ANZSIC – Industry of Employment by Divisions

Agriculture, Forestry & Fishing	Financial & Insurance Services
Mining	Rental, Hiring & Real Estate Services
Manufacturing	Professional, Scientific & Technical Services
Electricity, Gas, Water and Waste Services	Administrative & Support Services
Construction	Public Administration & Safety
Wholesale Trade	Education & Training
Retail Trade	Health Care & Social Assistance
Accommodation & Food Services	Arts & Recreation Services
Transport, Postal & Warehousing	Other Services
Information Media & Telecommunications	

The ten highlighted industry divisions above relate to service industries used by the Victorian Grants Commission to calculate working service populations. Most of the job classifications that make up the industry divisions are self-explanatory, except "Other services" which includes but is not limited to personal care services (e.g. hair, beauty, etc.), and the repairing of equipment and machinery[8].

[8] NOTE: The Victorian Grants Commission, in constructing its Regional Services CA, also assigns its Migratory population across their LGAs. In preparing the Regional Service Industry CA proposal detailed in Appendix 3, these additional steps have not yet been done for Tasmania. This is consistent with Commission practice for other

Internal parameters in Victorian Regional Services Cost Adjustor

The Victorian Grants Commission bases its assessment on the proportion of working service population (using Place of Work by LGA) to resident population in each council area. It then applies a control for the significant proportion of service industry positions found within the main city of Melbourne (of which there are four councils), by limiting the maximum service employment to population ratio to 35 per cent[9]. Without a capital city floor, the Regional Services CA would just benefit the capital city and regional towns would only receive limited, if any, recognition.

The Victorian Grants Commission's Regional Services CA contains a component of uplift, or ramping up, of the population employed in the Service Industries (from that of actual to a figure calculated as a percentage of the population on Census night) for those regional towns that it seeks to recognise as being important in their respective regions. This provides a degree of recognition for those regional cities that provide services to their region as well as just their rate base. This regional town status results in the service industry population being calculated as a percentage of the population on Census night rather than the actual number employed in the service industries for the LGA. The "regional town" status the Victoria Grants Commission's Regional Services cost adjustor bestows on these LGAs is a 40 per cent population employed in the Service Industry result, even though their actual percentage is less than 40 per cent. The Victoria Grants Commission determines which towns qualify for the uplift factor, based on population of regional towns[10].

The Victorian Grants Commission also uses a floor in its Regional Services CA whereby it uses a minimum percentage of people employed in the service industries for all LGAs. This floor is currently set at 10 per cent.

Census based data as the omissions are not generally statistically material. In Tasmania's case, the Migratory Offshore Shipping population represents >9000 people and the No fixed address population represents approximately 50 people.

To enable Victoria to assign its migratory population, Victoria has also sourced/cut its Census information using SA2 results to cross check and assign their equivalent people to a LGA. It is also worth noting that there are over 7,000 people (in Tas) who completed the 2016 Census who either did not state in which industry they worked (approximately 2000), or else inadequately described the industry in which they worked (> 5000 people). These exclusions represent > 5 per cent of the Tasmanian Census results.

Note: The .id data database notes that the 2016 Census used a new methodology to "impute" a work location to people who didn't state their workplace address. As a result, the .id 2016 and 2011 place of work data is not normally comparable.

[9] The number of people working in Service Industries in Melbourne City Council on Census day actually exceeded the Melbourne LGA population. Port Phillip, Stonnington and Yarra councils relative share of service industries was also well above the State average rate of employment in these industries. The State average is almost 27 per cent.

[10] The Victorian Grants Commission also applies a set percentage to eight major regional centres outside the metropolitan area with a population of greater than 20 000 people (i.e. Ballarat, Greater Bendigo, Greater Geelong, Greater Shepparton, Latrobe, Mildura, Warrnambool and Wodonga).

2020 Regional Services Industry Based CA proposal

When the Commission previously looked into the possibility of using service employment industry data as a replacement for the Commission's Regional Responsibility CA in 2012, councils were consulted on the raw data results only. Using the raw data results in Hobart being overly represented as not only does it reflect employment associated with providing services to its region, but it also provides services to the entire State. Based on the raw data in the 2012 Discussion Paper, Hobart City Council had more than 67 per cent of workers employed in the identified service industries and received the highest ranking compared to Launceston's (33 per cent), Burnie (32 per cent), Clarence (almost 15 per cent), Devonport (24 per cent), Glenorchy (18 per cent) and Kingborough (almost 12 per cent). Based on the 2016 Census data, the equivalent percentages are: Hobart: 87 per cent; Launceston: 40 per cent; Burnie: almost 39 per cent; Clarence: almost 20 per cent; Devonport: almost 30 per cent, Glenorchy: 23 per cent and Kingborough: 16 per cent.

For this year's discussion purposes, the Commission wishes to consult with councils on a more developed Regional Service Industry CA proposal than that which was considered in 2012 and which the Commission believes is more consistent with the approach used by the Victorian Grants Commission.

Accordingly, a Regional Service Industry CA has been prepared for comment (see Appendix 3). It has been based on the following parameters:

1. using the ABS Census Place of Work by LGA as its basis (currently reflecting the 2016 Census results);
2. applying a Capital City cap of 35 per cent (being the same percentage as used by the Victoria Grants Commission);
3. applying an uplift factor of 40 per cent to the non-capital city councils considered as providing regional services, namely Burnie, Clarence, Devonport, Glenorchy and Launceston. The uplift factor is the same percentage as used by the Victoria Grants Commission. The uplift factor in the Tasmanian proposal is applied to those councils with "city" status;
4. applying a floor to the percentage of population employed in the service industry of 10 per cent. The floor is set at the same percentage as used by the Victoria Grants Commission; and
5. for all other LGAs, using the actual percentages employed in service industries.

As well as considering the potential design of a Regional Service Industry CA, other matters that also need consideration are the expenditure categories to which it could apply, the redistributive effect it could have, and also the relationship it could have with other existing cost adjustors in the BGM.

Although similar to the expenditure categories used by the Victoria Grants Commission, the Victoria Grants Commission's cost adjustors do not directly align with the cost adjustors that the Commission uses in Tasmania's BGM. A comparison of how the Victorian Grants

Commission's cost adjustors apply across its expenditure categories compared to how the Commission's current cost adjustors apply to the expenditure categories used in Tasmania, is provided at Appendix 4. This table also details to which expenditure categories the Victoria Grants Commission applies its Regional Services CA. It is also noted that the Victoria Grants Commission also uses a Tourism CA that is informed by Tourism Research Australia data in its BGM.

Reflective of the similarities in drivers, the Commission is also consulting with councils on the possibility of replacing both the Regional Responsibility CA and the Worker Influx CA with the proposed, or a modified form of, the Regional Service Industry CA. The Commission is considering applying a Regional Service Industry CA to the Waste Management & Environment and Recreation & Culture expenditure categories. Its application to the Planning and Community Amenities expenditure category is to be further considered subject to evidence of the extent of the impact of non-residents on this expenditure category.

Conclusion:

The Commission is of the view that replacing the Regional Responsibility CA and Worker Influx CA with a Regional Service Industry based CA, either as proposed or modified based on the Commission's consideration of council feedback, is a better data-based solution to reflect the impact non-residents have on regional councils.

Other factors to consider

The Commission notes that this review is being undertaken in an environment where some other issues are occurring. These issues include:

- Launceston City Council's announcement of its intention to restructure the governance arrangements of both the UTAS Stadium and the QVMAG operations;
- Population movements over time - The pace of population shifts from the rural areas to more urban areas results in fewer residents in the more remote councils.
- Tourism – this cost adjustor is still applied, although at 50 per cent of the original CA, due to data problems. The Commission is aware of anecdotal evidence from councils that the greatest impacts from tourism is actually on local government road networks.

It is noted that the Service Industry percentages of population for Accommodation and Food Services, and Recreation and Culture industries by LGA is currently a subset included in the calculation of the proposed Regional Service Industry CA input data. This might itself be a useful basis for a decision related to the impact of tourism on an LGA. The Commission has not ruled out further examination of other more direct tourism related data such as this in its ongoing consideration of the impact of tourists on councils.

There is also argument that councils gain a revenue advantage from the activities of non-residents within their council areas. The Commission is currently of the view that its Assessed Annual Value (AAV) basis of revenue assessment in the BGM already takes this into account through its comprehensive assessment of total revenues generated by all councils, with the exception of car parking[11].

[11] Both Car parking revenue and car parking expenditure are currently excluded from the Commission's assessments of revenue capacity and expenditure requirements as it is not an activity that all councils can practically access.

Questions

Preliminary view of the Commission:

The Commission notes that none of the scenarios in this paper are "perfect" in appropriately recognising the impact of non-resident impacts on councils. Notwithstanding this, the Commission is considering the possibility of introducing a Regional Service Industry CA into its BGM methodology and ceasing the Regional Responsibility and Worker Influx CAs, given they are both demand focused and appear to be attempting to measure similar impacts on councils. The Commission seeks to discuss this proposal with councils further, and specifically is seeking council views on the following questions:

1. Is there anything missing in the scenarios canvassed that also needs to be taken into consideration?
2. Are you of the view that a clear case for a regional service net cost disadvantage has been made such that the case for addressing a disadvantage exists for councils providing services to non-residents?
3. If yes to Question 2, which scenario to recognising this impact do you support? If appropriate, please indicate your ranking of preferred solutions, from most favoured to least favoured.
4. If yes to Question 3, do you support the Commission changing its Regional Responsibility CA from an infrastructure basis to one based on the provision of recognised service industries in an LGA?
5. Do you support the Commission's preferred view to use the Service Industry data to inform a Regional Service Industry CA as proposed under Scenario 4 in the BGM (with the internal CA floors and limits as proposed or else as modified following feedback)?
6. If yes to Question 5, to which expenditure areas do you think the preferred cost adjustor should apply and how much redistributive effect do you consider reasonable?
7. Is proffering a solution in response to the impacts of non-residents on councils (whether under the guise of any form of a Regional Responsibility type CA or a Regional

Service Industry CA) consistent with the requirement for the Commission to take a policy neutral approach to its assessment methodology?

8. Do you support retaining the Tourism CA separately in the Commission's BGM? Do you support further investigation of both potential alternative data sources and modifying existing data sources for the Tourism CA and their potential application in both the BGM and Road Preservation Model?

9. Does the Commission need to further consider the broader revenue aspects of councils providing these services, notwithstanding that the BGM already uses a comprehensive council income concept and total AAV in its revenue capacity assessments of councils?

Submissions and timeframes

The 2020 Hearings and Visits represent an opportunity for councils to discuss the Commission's papers, make verbal submissions or improve understanding of the Commission's position on issues and aid in the preparation of council's written submissions. The Commission invites comments and input from councils on the issues raised within this Discussion Paper.

Councils are invited to provide verbal submissions to the Commission as part of its 2020 Hearings and Visits process, which is currently being organised for early 2020.

Councils wishing to also provide written feedback should forward this to the Commission Executive Officer as follows:

- By post: Executive Officer
  State Grants Commission
  GPO Box 147
  HOBART TAS 7001
- By email: SGC@treasury.tas.gov.au

Councils are encouraged to provide draft submissions by Monday, **20 January 2020,** to facilitate discussions and help the Commission gain a preliminary indication of issues likely to be raised prior to meeting with each council.

Final written submissions are due by close of business, **Friday 28 February 2020**.

It is intended that a further paper on this issue will be provided to councils during 2020.

Further details regarding the annual assessments and methodology used by the Commission can be found in the State Grants Commission 2018-19 Annual Report, including 2019-20 Financial Assistance Grant Recommendations, the State Grants Commission 2019-20 Financial Assistance Grant Data Tables and the *State Grants Commission Financial Assistance Grant Distribution Methodology* paper. These documents are available on the Commission website. Go to the Commission webpage (https://www.treasury.tas.gov.au/state-grants-commission) and then click Methodology and Publications.

Any queries should be directed to the Executive Officer on (03) 6166 4274.

Appendices

APPENDIX 1 - BGM COST ADJUSTOR IMPACTS (Redistributive effect) - Current process (2019-20 BGM Outcomes)

	Absentee Population			Regional Responsibility			Tourism			Worker Influx			Total Non-Resident CA Effect		
	TOTAL EXPENDITURE EFFECT	Per Capita redistribution effect	Rank	TOTAL EXPENDITURE EFFECT	Per Capita redistribution effect	Rank	TOTAL EXPENDITURE EFFECT	Per Capita redistribution effect	Rank	TOTAL EXPENDITURE EFFECT	Per Capita redistribution effect	Rank	TOTAL EXPENDITURE EFFECT	Per Capita redistribution effect	Rank
Break O'Day	+ 843 849	$135.41	4	- 146 705	-$23.54	9	+ 72 073	$11.57	5	- 15 258	-$2.45	14	+ 753 960	$120.98	7
Brighton	- 593 852	-$34.34	29	- 407 111	-$23.54	7	- 107 823	-$6.23	29	- 110 532	-$6.39	25	-1 219 319	-$70.51	25
Burnie	- 181 579	-$9.38	21	+ 53 344	$2.76	4	- 17 234	-$0.89	18	+ 25 755	$1.33	3	- 119 714	-$6.19	20
Central Coast	- 225 533	-$10.30	22	- 515 633	-$23.54	9	- 52 069	-$2.38	22	- 121 015	-$5.52	24	- 914 249	-$41.74	22
Central Highlands	+ 559 212	$260.83	1	- 50 471	-$23.54	18	+ 66 386	$30.96	3	- 5 085	-$2.37	12	+ 570 042	$265.88	2
Circular Head	+ 233 540	$28.95	11	- 189 878	-$23.54	9	+ 25 305	$3.14	10	- 17 477	-$2.17	8	+ 51 489	$6.38	11
Clarence	-1 193 031	-$20.95	27	+ 157 001	$2.76	2	- 264 885	-$4.65	27	- 674 504	-$11.84	29	-1 975 419	-$34.69	29
Derwent Valley	- 181 004	-$17.59	26	- 242 233	-$23.54	18	+ 4 188	$0.41	17	- 39 990	-$3.89	20	- 459 039	-$44.61	16
Devonport	- 302 540	-$11.90	23	+ 70 071	$2.76	6	+ 24 769	$0.97	13	+ 14 656	$0.58	4	- 193 044	-$7.60	23
Dorset	+ 454 342	$68.30	7	- 156 592	-$23.54	9	+ 59 477	$8.94	7	- 16 883	-$2.54	15	+ 340 344	$51.16	8
Flinders	+ 90 498	$91.69	6	- 23 235	-$23.54	9	+ 4 433	$4.49	8	- 2 224	-$2.25	9	+ 69 472	$70.39	1
George Town	+ 314 855	$45.43	8	- 163 160	-$23.54	18	- 8 056	-$1.16	20	- 11 917	-$1.72	7	+ 131 722	$19.00	10
Glamorgan Spring Bay	+ 909 701	$200.91	3	- 106 592	-$23.54	26	+ 215 451	$47.58	1	- 10 887	-$2.40	13	+1 007 673	$222.54	6
Glenorchy	-1 274 410	-$26.75	28	+ 131 336	$2.76	2	- 258 893	-$5.43	28	- 75 057	-$1.58	5	-1 477 024	-$31.01	28
Hobart	- 494 379	-$9.21	20	+ 148 010	$2.76	4	+ 169 650	$3.16	9	+1 671 831	$31.14	1	+1 495 112	$27.85	26
Huon Valley	+ 445 459	$25.87	12	- 405 346	-$23.54	9	+ 26 562	$1.54	11	- 77 538	-$4.50	22	- 10 863	-$0.63	15
Kentish	- 36 779	-$5.82	18	- 148 871	-$23.54	7	+ 63 652	$10.07	6	- 21 491	-$3.40	18	- 143 489	-$22.69	12
King Island	+ 53 746	$33.57	9	- 37 688	-$23.54	18	+ 1 089	$0.68	16	- 3 614	-$2.26	10	+ 13 532	$8.45	3
Kingborough	+ 40 154	$1.06	16	- 888 281	-$23.54	18	- 153 435	-$4.07	26	- 408 034	-$10.81	28	-1 409 595	-$37.36	27
Latrobe	+ 167 437	$14.78	13	- 266 691	-$23.54	18	+ 12 463	$1.10	12	- 37 526	-$3.31	17	- 124 317	-$10.97	13
Launceston	-1 015 581	-$15.06	25	+5 507 215	$81.65	1	+ 56 916	$0.84	15	+ 479 868	$7.11	2	+5 028 418	$74.55	24
Meander Valley	- 243 583	-$12.36	24	- 464 056	-$23.54	26	- 20 323	-$1.03	19	- 104 067	-$5.28	23	- 832 029	-$42.21	19
Northern Midlands	- 90 678	-$6.82	19	- 313 090	-$23.54	18	+ 12 261	$0.92	14	- 37 439	-$2.81	16	- 428 946	-$32.25	17
Sorell	+ 473 656	$31.12	10	- 358 241	-$23.54	29	- 47 122	-$3.10	24	- 98 450	-$6.47	26	- 30 157	-$1.98	18
Southern Midlands	- 4 701	-$0.77	17	- 144 021	-$23.54	18	- 7 254	-$1.19	21	- 23 966	-$3.92	21	- 179 942	-$29.41	9
Tasman	+ 514 482	$214.01	2	- 56 592	-$23.54	9	+ 109 065	$45.37	2	- 5 495	-$2.29	11	+ 561 461	$233.55	4
Waratah-Wynyard	+ 132 662	$9.61	14	- 324 860	-$23.54	26	- 37 158	-$2.69	23	- 53 004	-$3.84	19	- 282 361	-$20.46	14
West Coast	+ 445 002	$106.79	5	- 98 094	-$23.54	9	+ 124 599	$29.90	4	- 7 043	-$1.69	6	+ 464 464	$111.46	5
West Tamar	+ 159 054	$6.69	15	- 559 536	-$23.54	9	- 74 088	-$3.12	25	- 213 612	-$8.99	27	- 688 182	-$28.95	21
SUM REDISTRIBUTED	5 837 650			6 066 977			1 048 339			2 192 110			10 487 688		

APPENDIX 2: VICTORIA GRANTS COMMISSION BASE GRANT MODEL COST ADJUSTORS

9 Regional Services

Objective

Recognizes that some councils provide a range of services to a larger than average catchment area, increasing the demand on certain council services.

Applied to

The Regional Services Cost Adjustor is applied to the following expenditure functions within the Victoria Grants Commission's general purpose grants model:

Expenditure Function:	Major Cost Driver:
Recreation and Culture	Population
Waste Management	Number of Dwellings
Traffic & Street Management	Population
Business & Economic Services	Modified Population - adjusted by vacancy rates doubled to maximum 15,000

Source data

- Australian Bureau of Statistics, Census 2016 - Employment, Income and Education, LGA (POW) by INDP – 1 Digit Level, Employment by Industry, downloaded TableBuilder December 2017.
- Australian Bureau of Statistics, Regional Population Growth, Australia, (cat no. 3218.0), Table 2. Estimated Residential Population, Local Government Area, at 30 June 2018, released 27 March 2019. https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3218.02017-18?OpenDocument

Industry categories used:

- Retail Trade
- Accommodation and Food Services
- Information Media and Telecommunications
- Financial and Insurance Services
- Rental Hiring and Real Estate Services
- Professional Scientific and Technical Services
- Administrative and Support Services
- Public Administration and Safety
- Education and Training
- Health Care and Social Assistance
- Arts and Recreation Services
- Other Services

Index Construction

The estimated number of people working in service industries is divided by the total estimated resident population. An adjustment has been made to the results to take account of the significant numbers of people working in service employment in inner Melbourne, so that a maximum service employment-to-population ratio of 35% applies. This applies to the Cities of Melbourne, Port Phillip, Stonnington and Yarra.

The maximum service employment-to-population ratio of 35% has also been applied to the eight major regional centres in Victoria outside the metropolitan area with a population of greater than 20,000 persons - Greater Geelong, Ballarat, Greater Bendigo, Latrobe, Warrnambool, Greater Shepparton, Wodonga and Mildura) and to the Rural City of Horsham.

Total service industry employment equates to 25.5% of the Victorian population. Councils with a ratio of service industry employment-to-population above that average could be said to be net service providers (providing services to more than just their own residents) while those below the average could be said to be net service users, providing fewer services than their population requires.

The ratio of service industry employment-to-population ranges from a minimum of 0.10 to a maximum of 0.40. These values are then spread across a range from 1.00 to 2.00 (the "Primary Index"), with the councils with the highest ratio of service employment to population being allocated the maximum value of 2.00.

A state average of the Primary Index is obtained by weighting each council's Primary Index by the relevant major cost driver appropriate to that function (population of population with a minimum of 15,000 persons).

The Cost Adjustment Index (CAI) is the ratio of each council's Primary Index to the state average. Councils with a CAI above the state-wide average are assessed as having relatively higher expenditure needs than councils with a CAI below the state average.

APPENDIX 3 TASMANIAN REGIONAL SERVICE INDUSTRY COST ADJUSTOR PROPOSAL - USING SIMILAR APPROACH AS VICTORIAN GRANTS COMMISSION

Cost Adjustor: **Regional Services**

Cost Driver: Population

	ERP (p)	Employed in Service Industries		Population	Employed / Pop	Primary Index	Pop Weighted Avg (PWA)		Cost Adjustor		
	June 2018 *(a)*	(actual)	(updated)	Census 2016	Per 100		Weighted Pop Index	Raw Cost Adjustor Index	*Range Factor*	Ranged CA	Rank
	From Col AA of Input Data file	*b*	*c*	*d*	*e*	*f*	*g*	*h=f/sum(f10:f38)*	RF-> 3.880	*j = (h+RF)/(j+RF)*	
Break O'Day (M)	6,232	1,127	1,127	6,104	18.46	1.282	7 990	0.817		0.947	12
Brighton (M)	17,294	1,645	1,645	16,512	10.00	1.000	17 294	0.637		0.896	28
Burnie (C)	19,348	7,352	7,558	18,894	40.00	2.000	38 696	1.275		1.079	1
Central Coast (M)	21,904	3,444	3,444	21,362	16.12	1.204	26 374	0.767		0.933	18
Central Highlands (M)	2,144	228	228	2,145	10.63	1.021	2 189	0.651		0.899	27
Circular Head (M)	8,066	1,402	1,402	7,920	17.70	1.257	10 137	0.801		0.943	14
Clarence (C)	56,945	10,950	21,927	54,818	40.00	2.000	113 890	1.275		1.079	1
Derwent Valley (M)	10,290	1,316	1,316	10,022	13.13	1.104	11 364	0.704		0.915	22
Devonport (C)	25,415	7,322	9,881	24,702	40.00	2.000	50 830	1.275		1.079	1
Dorset (M)	6,652	1,120	1,120	6,619	16.92	1.231	8 187	0.784		0.938	15
Flinders (M)	987	215	215	899	23.92	1.464	1 445	0.933		0.981	7
George Town (M)	6,931	825	825	6,763	12.20	1.073	7 439	0.684		0.909	23
Glamorgan Spring Bay (M)	4,528	933	933	4,400	21.20	1.373	6 219	0.875		0.964	8
Glenorchy (C)	47,636	10,809	18,498	46,246	40.00	2.000	95 272	1.275		1.079	1
Hobart (C)	53,684	44,053	17,655	50,443	35.00	1.833	98 421	1.168		1.049	6
Huon Valley (M)	17,219	2,196	2,196	16,199	13.56	1.119	19 260	0.713		0.917	21
Kentish (M)	6,324	721	721	6,126	11.77	1.059	6 697	0.675		0.906	24
King Island (M)	1,601	327	327	1,583	20.66	1.355	2 170	0.864		0.961	10
Kingborough (M)	37,734	5,858	5,858	35,852	16.34	1.211	45 708	0.772		0.934	17
Latrobe (M)	11,329	1,950	1,950	10,700	18.22	1.274	14 435	0.812		0.946	13
Launceston (C)	67,449	26,180	26,110	65,274	40.00	2.000	134 898	1.275		1.079	1
Meander Valley (M)	19,713	3,176	3,176	19,281	16.47	1.216	23 966	0.775		0.935	16
Northern Midlands (M)	13,300	1,755	1,755	12,821	13.69	1.123	14 935	0.716		0.918	20
Sorell (M)	15,218	1,594	1,594	14,415	11.06	1.035	15 755	0.660		0.902	25
Southern Midlands (M)	6,118	505	505	6,042	10.00	1.000	6 118	0.637		0.896	28
Tasman (M)	2,404	479	479	2,372	20.19	1.340	3 221	0.854		0.958	11
Waratah-Wynyard (M)	13,800	1,932	1,932	13,575	14.23	1.141	15 747	0.727		0.921	19
West Coast (M)	4,167	868	868	4,152	20.91	1.364	5 682	0.869		0.962	9
West Tamar (M)	23,769	2,452	2,452	22,719	10.79	1.026	24 397	0.654		0.900	26
	528,201	142,734	137,697	508,960	27.05	1.569	828 734	PWA = 1.000		PWA = 1.000	
						j=sum h/sum a	1.569				
Min Value:		Hobart (Capital City): 35% cap applied.			10.00	1.00		0.637			
Max Value:		Cities: 40% cap applied.			40.00	2.00		1.275			

2019 - Floor 10% minimum (Brighton, Southern Midlands)

2019 - City status (excluding Hobart) to receive uplift factor - Burnie, Clarence, Devonport, Glenorchy, Launceston: 40%

Cap 1 =	0.35
Cap 2 =	0.40

APPENDIX 4 COMPARISON - VICTORIA COST ADJUSTORS AND EXPENDITURE CATEGORIES V TASMANIA COST ADJUSTORS AND EXPENDITURE CATEGORIES

Victoria		Tasmania	
Expenditure Categories to which CA applies	**Cost Adjustor**	**Expenditure Categories to which CA applies**	**Expenditure Categories to which CA applies**
Aged Pensioners	Aged & Disability Services		No equivalent or similar CA
Economies of Scale	Governance (20%); Waste Management (30%); Traffic & Street Management (10%); Environment (10%);	Scale (Admin)	General Admin
	Business & Economic Services (30%)	Scale (Other)	Planning & Community Amenities; Waste Management & Environment; Recreation & Culture
Environmental Risk (Fire & Flood)	Environment (30%)	Climate	Planning & Community Amenities; Waste Management & Environment; Recreation & Culture
Indigenous Population	Governance (10%): Family & Community Services (10%)		No equivalent or similar CA (Commission has consulted on aboriginality and found no disadvantage needing addressing in Tas BGM)
Language	Governance (25%); Family & Community Services (10%); Aged & Disability Services (20%): Recreation & Culture (10%)		No equivalent or similar CA
Population Dispersion	Governance (25%); Family & Community Services (20%); Aged & Disability Services (30%); Recreation & Culture (25%); Waste Management (50%0; Traffic & Street Management (15%); Environment (25%): Business & Economic Services (10%)	Dispersion	Law, Order & Public Safety; Planning & Community Amenities; Waste Management & Environment; Recreation & Culture
Population Growth	Family & Community Services (10%); Traffic & Street Management (25%); Environment (10%)		No equivalent or similar CA
Population <6 years	Family & Community Services (30%)		No equivalent or similar CA
Regional Services	**Recreation & Culture (40%)**; **Waste Management (10%)**; Traffic & Street Management (35%) Business & Economic Service (30%)	**Regional Responsibility**	**Recreation & Culture**
		Worker Influx	Planning & Community Amenities; **Waste Management & Environment; Recreation & Culture**
Remoteness	Governance (20%); Environment (25%): Business & Economic Services (20%)	Isolation	General Administration; Planning & Community Amenities; Recreation & Culture
Socio-Economic	Family & Community Services (20%); Aged & Disability Services (30%):	Unemployment (to be substituted with SEIFA)	Health, Housing & Welfare, Law, Order & Public Safety

APPENDIX 4 COMPARISON - VICTORIA COST ADJUSTORS AND EXPENDITURE CATEGORIES V TASMANIA COST ADJUSTORS AND EXPENDITURE CATEGORIES (CONT'D)

Victoria		Tasmania	
Expenditure Categories to which CA applies	**Cost Adjustor**	**Expenditure Categories to which CA applies**	**Cost Adjustor**
Tourism	**Recreation & Culture (25%); Waste Management (10%)**; Traffic & Street Management (15%): Business & Economic Services (10%)	**Tourism**	Law, Order & Public Safety; Planning & Community Amenities; **Waste Management & Environment; Recreation & Culture**
No equivalent or similar CA		**Absentee Population**	General Admin; Planning & Community Amenities; **Waste Management & Environment; Recreation & Culture**
No equivalent or similar CA		Population Decline	General Admin; Health, Housing & Welfare; Law Order & Public Safety; Planning & Community Amenities; Waste Management & Environment; Recreation & Culture

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