

Issues identified by councils

Discussion Paper – DPI3-01

January 2013



Tasmania
Explore the possibilities

Contents

Background3

The effect of climate change on revenue and expenditure, particularly coastal impacts4

Service diversity7

Severe economic impact..... 10

Submissions and timeframes..... 13



Background

The State Grants Commission is an independent statutory body 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.

To provide some structure to updating the distribution methods of the Australian Government Financial Assistance Grants (FAGs), the Commission operates a triennial review policy whereby major method changes are introduced only every three years, with data updates and minor changes applied every year.

Table 1: Overview of Triennial Review Period (FAGs)

Distribution	Action
2012-13	Method Changes + Data Updates
2013-14	Data Updates
2014-15	Data Updates
2015-16	Method Changes + Data Updates

In September 2012 the Commission wrote to all Tasmanian councils, seeking input from councils and other interested parties in identifying particular issues which might merit detailed examination during the triennial review period ending in 2015-16.

The Commission has considered all feedback received through this consultation and has resolved to promote a dialogue with Tasmanian councils on three particular issues during the Commission's 2013 hearings and visits with councils:

- The effect of climate change on revenue and expenditure, particularly coastal impacts.
- Service diversity.
- Severe economic impact.

The Commission is seeking council comment, views and supporting information regarding whether the Commission should allow for expenditure on these three issues in its Base Grants Model (BGM). This will provide an opportunity for councils that support the recognition of these issues to discuss their views and advance a case regarding impacts on council revenue and/or expenditure.

The effect of climate change on revenue and expenditure, particularly coastal impacts

I. Background

Policy responses to the effect of climate change on revenue and expenditure, particularly coastal impacts, continue to evolve at all levels of government in Australia.

The Commission observes that policy responses across local government in Tasmania continue to develop. Significant differences in the resources and approaches devoted to addressing issues raised by climate change are evident. Council policy responses appear to be generally dictated by individual council perceptions of impending impacts of climate change on areas of council responsibility, particularly those councils affected by coastal impacts.

Australian Government initiatives

The Australian Government's position paper released in February 2012, *Adapting to Climate Change in Australia*, sets out the Australian Government's vision for adapting to the impacts of climate change and proposes practical steps to realise that vision. It outlines the Australian Government's role in adaptation, which it identifies as including building community resilience and establishing the right conditions for people to adapt; taking climate change into account in the management of Commonwealth assets and programs; providing sound scientific information; and leading national reform.

State Government initiatives

The State Government has a number of policy initiatives which may influence local government policy formation including:

- An Issues Paper, *Adapting to Climate Change in Tasmania* designed to inform future adaptation actions and policy in the State which has been subject of consultation between the Tasmanian Climate Change Office and key stakeholders including local government. The resulting adaptation action plan will form part of a broader climate change strategy which it is anticipated will be released in 2013.
- Funding in the 2012-13 State Budget was provided to support existing work on preparation of a new framework for planning, management and protection of Tasmania's coastline through the *Coastal Protection and Planning Framework*. In October 2012 sea level rise planning allowances

for Tasmania were announced, which will ensure all planning for the State's coastal areas will consistently allow for sea level rise of 0.2 metres by 2050 and 0.8 metres by 2100.

Local government initiatives

The Local Government Association of Tasmania (LGAT) has taken a lead role in the identification and implementation of strategies to enable local government in Tasmania to adapt to climate change. It has hosted Climate change Adaptation Forums for council officers and elected members and promoted Tasmanian Council Climate Change Case Studies which showcase work undertaken by various councils to mitigate against and adapt to climate change.¹

LGAT has also promoted and/or partnered in a number of key adaptation projects with local government implications.

Notable action by a council potentially seriously affected by coastal impacts is the report initiated by Clarence City Council entitled the *Integrated Assessment Climate Change Impacts Report* which was released in April 2009. The purpose of this study was to provide an integrated assessment of climate change risks on coastal areas for the municipality of Clarence.

Adaptation projects

A number of adaptation projects have been identified which examine issues at a local government level:

- The Tasmanian Coastal Adaptation Decision Pathways (TCAP) project

The TCAP is a joint initiative of the Local Government Association of Tasmania, Tasmanian Climate Change Office and Tasmanian Planning Commission with funding from the Australian Government. The work of the TCAP project is to explore the realistic options available to councils and communities in responding to future risk coastal hazards as a result of climate change and an understanding of the full costs and other implications of the affected communities' preferred approaches. The project has been facilitated by four councils – Kingborough, Clarence, Break O'Day and Latrobe.

Detailed documentation on the TCAP project is expected to be publically released in late 2012. It is anticipated that project material, reports, findings and methodology will be made available to share the successes of the project and pass on learnings to other coastal councils.

- Climate Futures for Tasmania

This project has been jointly funded by the Australian Government, the Tasmanian Government and Hydro Tasmania and undertaken by the Antarctic Climate and Ecosystems Cooperative Research Centre (ACE CRC). It is the most important source of climate change projections at a local scale. The outputs of the project include local government area climate profiles², visual mapping of predictions (accessible through layers on LISTmap) and digital terrain mapping data covering vulnerable Tasmanian coastlines (GIS dataset).

- Regional Councils Climate Adaptation Project

This Australian Government funded project aims to improve the capability and resilience of Tasmanian councils to adapt to, and manage, the risks of climate change. The key outputs from the project are to include Council (Corporate) Climate Adaptation Plans for the 12 southern councils comprising STCA and a Climate Change Strategy for the Region. Detailed documentation on the outputs of the project has not yet to be released.

¹ <http://www.lgat.tas.gov.au/page.aspx?u=601>

² http://www.dpac.tas.gov.au/divisions/climatechange/adapting/climate_futures/local_government_area_climate_profiles

- ClimateAsyst

The Climate Susceptibility, Analysis and Communication Tool (ClimateAsyst) project was developed by Pitt and Sherry in partnership ACE CRC and aims to assist owners, managers and planners to use customised, cutting edge future climate projections to assess the susceptibility of their infrastructure to projected changes in climate at a local scale.

Commission perspective

At a local government level policy response to climate change, particularly coastal impacts, appears to be focussed on developing an understanding and capability to implement adaptation responses. At this stage there appears to be little, if any, identifiable expenditure at the council level which mitigates against any effort to calculate standardised expenditure across councils.

While the Commission recognises the reality of climate change and coastal impacts in particular climate change effects will be different depending on the physical and geographical location of a council. A council may not experience sea level impacts but extreme weather events may give rise to flood, fire or drought which are a reflection of climate change but which would not be assessable under the Commission's policy in relation to natural disasters.

2. Approach of other State Grants Commissions

No other State Grants Commission provides a cost adjustor or expenditure function for expenditure on climate change. However, the South Australian Local Government Grants Commission currently provides an expenditure allowance related to climate change in its "Other Needs Assessment" expenditure assessment which recognises expenditure which the Commission wishes to include in its assessment, but finds difficult to quantify with objective data. The South Australian Commission provides an allowance for "Environment and Coastal Protection" within this assessment. It is understood that the allowances are capped, fixed dollar amounts and that the total of this allowance for all councils represents an extremely small portion of total assessed expenditure in that State.

3. Points for discussion

The Commission seeks the assistance of councils in identifying current policies that relate to climate change which will assist the Commission to form a view on average council policy relative to climate change, particularly coastal impacts.

- *Can it be demonstrated that climate change alters the costs of doing business for particular councils? If so, what methods might the Commission employ to quantify additional expenditure necessitated by climate change?*

If the Commission is to assess expenditure on climate change as a distinct element of its assessment, the Commission would normally focus on recurrent expenditure:

- *Is your council able to provide to the Commission with details and amounts of annual expenditure linked to climate change?*
- *Does your council expect to incur material depreciation expense on assets that address climate change?*

Service diversity

I. Background

It has been submitted by one council that:

Service diversity – arises where a number (of particularly rural) communities require the involvement of their Councils to sustain the delivery of an increasingly wide range of services where no alternative provider exists. It is certainly the case [for the council that raised the issue] that the delivery of children's services and rural health services by the Council is required. The delivery of an increasingly diverse range of services adds to the complexity of the Council's operations which makes comparisons with other Councils (such as those which are urban based, with a more narrow service delivery regime) appear unfavourable.

Existing allowances provided by the Commission

The Commission currently provides two allowances in its assessment which recognise expenditure deemed not adequately captured through the standard expenditure functions assessed in the Commission's BGM. While they are significant in terms of establishing a precedent it should be noted that the sum of these allowances represented only 0.06 per cent of all assessed expenditure in the Commission's 2012-13 assessment.

- The "GP practice allowance" was first included in the Commission's 1999-2000 assessment. The Commission recognised a necessity for some councils to provide direct financial support in order to attract and retain the services of general practitioners within their boundaries. The GP practice allowance of \$30 000 per practice was provided for eight practices, across five councils, in the Commission's 2012-13 assessment.
- The "airport allowance" was first included in the Commission's 1999-2000 assessment. The allowance has been provided since this time for Flinders and King Island councils, as the Commission considers airports to be essential infrastructure for these island councils. An airport allowance of \$35 000 each was provided to these two councils in the Commission's 2012-13 assessment.

Existing expenditure functions modelled by the Commission

By recognising expenditure outside of its established standardised expenditure assessment methodology the Commission effectively acknowledges that such expenditure is not adequately assessed under the Commission's modelling of existing expenditure functions.

Standardised expenditure is modelled by the Commission for all councils for a standard list of expenditure functions, which are listed in Table 2.

Table 2: Expenditure functions assessed by the State Grants Commission

Expenditure function	Explanation of expenditure function	Reported expenditure by expenditure function: 2010-11¹
General administration	Legislative, executive, financial and fiscal affairs relating to general purposes only (that is, not solely related to any one of the purposes listed below).	17.3%
Health, housing and welfare	Services for the aged, community health services, health inspections, family and child welfare, housing services.	4.7%
Law, order and public safety	Fire protection, support of State Emergency Service, animal control and other public order and control.	1.1%
Planning and community amenities	Planning and building services, street lighting, public conveniences, shopping malls, cemeteries and crematoria.	9.1%
Recreation and culture	Public halls and civic centres, swimming pools, parks and playing grounds, sports assistance and promotion, libraries and other cultural services.	17.3%
Roads	Re-construction and maintenance of roads and bridges.	31.2%
Waste management and the environment	Household and other garbage services, urban storm water drainage, street cleaning, flood mitigation and other protection of the environment.	12.8%
Other	Expenditure on items not elsewhere classified. Includes: saleyards and markets; tourism and area promotion; aerodrome operations; communications; and natural disaster relief.	6.5%

¹ Source: Consolidated Data Collection

Commission perspective

To establish a case for incorporating additional areas of service diversity, the Commission would need to be convinced of the necessity for the provision of non-standard services at a recurrent, net cost to ratepayers. In the example provided by council, it would appear that council is suggesting that the Commission's assessment of Health, Housing and Welfare does not adequately cover service provision in relation to child care by some councils.

If it should be accepted that there is justification for recognising expenditure relating to an aspect of service diversity, the Commission must establish criteria and a reliable method of quantifying the expenditure that is to be recognised.

2. Approach of other State Grants Commissions

The Western Australian Local Government Grants Commission provides a special circumstances allowance for issues “that are not picked up by the existing disabilities”. In practice this allowance has been applied extremely rarely on an ad hoc basis. The allowance has only been used for three councils in the last decade and only in unique circumstances where expenditure obligations have been thrust upon councils outside the ambit of the expenditure assessed by the Western Australian Commission.

3. Points for discussion

The Commission seeks input from councils on the mix of expenditure functions it considers in its assessment:

- *Are the expenditure functions quantified by the Commission consistent with the average mix of services provided by Tasmanian Councils?*
- *If the Commission were to consider recognising the expenditure covered by the concept of “service diversity”, can councils identify expenditure which the Commission should examine?*
- *Are there alternative definitions around the concept of “service diversity” that should be considered by the Commission?*
- *If the Commission were to consider recognising the concept of “service diversity”, can council identify data source(s) to allow the Commission to recognise expenditure on “service diversity” that is independent of the policy decisions of an individual council and does not conflict with the principle of Effort Neutrality?*

Severe economic impact

I. Background

It has been submitted to the Commission that:

Severe economic impact (both to communities and to Councils) maybe caused through the decline of a traditional industry base. It is certainly the case that a number of (particularly rural) Councils face the potential of significant impact through the decline of the forest and agricultural sectors in the short to medium term.

The implicit contention is that severe economic downturns lead to specific revenue and expenditure pressures for affected councils.

Special circumstances and Financial Assistance Grants

The level of the base grants available for the State does not take into account the effect of special circumstances, such as natural disaster or other circumstances. Annual changes in the national Financial Assistance Grant pool are linked only to indexation for growth in CPI and estimated resident population, as estimated by the Australian Bureau of Statistics. Tasmania receives a share of the national population pool consistent with its share of the national population. As a result, councils should note that any recognition of special circumstances that increased the grant of a council(s) would be at the expense of grants provided to other councils.

Furthermore, in the Commission's 2012-13 recommendations, close to half of all Tasmanians reside in councils which receive the minimum base grant only (Clarence, Glenorchy, Hobart, Kingborough and Launceston). The minimum base grant is prescribed by Commonwealth legislation such that 30 per cent of the base grant pool must be allocated on a population share basis.

Accordingly, any allocation of funds to recognise special circumstances would reallocate a portion of the 70 per cent of the base grant pool dedicated to relative needs grants. In effect, this would reallocate monies between those councils assessed by the Commission with an above average need for funding, while base grant funding to those councils receiving the minimum grant only would be unaffected.

Natural disaster

The existing policy of the Commission is that it does not directly support councils through its recommendations in the event of natural disaster. It is the view of the Commission that financial

assistance is available at a Commonwealth and State Government level. This policy was affirmed by the Commission in its 2005-06 and 2006-07 assessments, at the time the Tasmanian Disaster Relief and Recovery Arrangements (TDRRA) and Natural Disaster Relief and Recovery Arrangements (NDRRA) were implemented. The State Government provides funding to councils through the TDRRA to help pay for natural disaster relief and recovery costs. In turn, the Australian Government provides funding to states through the NDRRA.

Other circumstances

A number of scenarios outside of the control of local government, which potentially might negatively impact on the financial position of councils are identifiable.

For example an affected council might experience a decline in rating base and a decreased ability to raise revenue as a consequence of a severe economic downturn in a particular industry sector or locality. However, such a decline would ultimately be recognised in the Commission's assessment of the rating base of council. Once a revaluation for that council area has been undertaken, a decline in the rating base would be reflected in data supplied by the Valuer-General which would reflect in the Commission's recommendations.

Another reflection of severe economic impact may be for a higher demand for expenditure on community programs. However, a broad, negative, change in circumstances would inevitably affect employment levels and impact on the unemployment cost adjustor in the Commission's expenditure assessment.

The data used to quantify the unemployment cost adjustor is a useful indicator of the current economic circumstances of a particular council. The downside of using unemployment to quantify changes in the economic fortunes of council areas is the volatility of the data. The unemployment cost adjustor is discussed in more detail in the Commission's Discussion Paper DP13-02 *Review of Cost Adjustors in the Base Grant Model*.

Commission perspective

There appears to be limited information that would assist the Commission in identifying any affects on councils of severe economic downturns that are not picked up in the Commission's existing assessment process. The most obvious examples of data that would decline in-line with economic circumstances would appear to be changes in councils' rating bases, unemployment and population, all of which are key inputs into the Commission's existing modelling.

The Commission notes that the Victorian Grants Commission made adjustments to the revenue raising capacity calculations for those councils affected by the February 2009 bushfires on mainland Australia.

The Commission's current policy is one of not directly supporting councils affected by natural disaster. The Commission intends to monitor any changes to council circumstances due to the recent Tasmanian bushfires that may not be appropriately captured through the Commission's existing data and methods which the Commission uses to form its annual recommendations. The Commission believes this approach is consistent with the framework within which the Commission operates.

2. Approach of other State Grants Commissions

No other Commissions employ a specific mechanism for recognising severe economic impact in their modelling in the normal course of assessing grants.

However, the Victoria Grants Commission responded to the bushfires that occurred in that State in February 2009. The Commission made a special allowance in its 2009-10 grant allocations for the ten councils that had more than ten properties destroyed in those fires. An adjustment was made to the valuations for those councils used in assessing their rate revenue raising capacity, to reflect the sudden loss of rate income, and to reflect the significant reduction in population experienced in a number of council areas.

3. Points for discussion

In the context of the example of severe economic impact provided by Council:

- *Are the revenue and expenditure pressures on councils linked to severe economic impacts sufficiently captured by the decline in the council's revenue base?*
- *What other revenue and expenditure pressures on councils may be linked to severe economic impact?*
- *In a broader context, should the Commission's assessments directly take into account special circumstances linked to events not influenced by councils, excluding those that relate to the direct impact of natural disasters?*

The Commission will consider information and data relating to effect of recent Tasmanian bushfires on councils over coming months:

- *In the context of forming its 2013-14 recommendations, do councils consider the financial consequences of the recent Tasmanian bushfires are appropriately captured in the Commission's modelling?*

Submissions and timeframes

The Commission invites comments and input from councils on the issues raised within this discussion paper. However, council input need not be confined to the issues identified. Councils should feel free to provide comments on other pertinent issues regarding the Commission assessment methodologies.

Submissions should be forwarded to the Commission Secretary, Mr John Wise as follows:

- By post: Secretary
State Grants Commission
GPO Box 147
HOBART TAS 7001
- By email: John.Wise@treasury.tas.gov.au

Further details regarding the annual assessments can be found in the 2012-13 Annual Report that is available on the Commission website. Go to the Department of Treasury and Finance webpage (www.treasury.tas.gov.au) and click the State Grants Commission 'Quick Link', then click Publications.

Submissions close on Friday 22 February 2013.

Any queries should be directed to the Secretary on 6233 5037.

2013 Hearings and Visits

The Commission will provide councils with an opportunity to discuss this paper and any other concerns during the 2013 Hearings and Visits program that will begin in March 2013.