

Status of current Triennium Review

Information Paper IPI5-01

December 2014

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Review 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. This policy is designed to balance the conflict between grant stability and the desirability of updating the Commission's modelling to best reflect horizontal fiscal equalisation principles and developments in council practices.

The last major restructure of the models occurred in 2012-13 when the Commission applied changes to the Road Preservation Model. These changes related to a reduction in the number of road types considered by the Commission from four to three, a change to the method of assessing bridge maintenance costs by adopting a preservation cost approach, an improved method of estimating life cycle costs that more accurately reflects actual council engineering maintenance practices and provision for higher costs of maintenance on Bruny Island. Detailed discussion of these changes can be found in the State Grants Commission Annual Report for 2012-13.

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

This paper provides councils with a summary of the matters that the Commission has considered over the current triennium, and the decisions that have been made in respect of those matters.

Introduction

The Commission undertakes hearings and visits each year to discuss the issues raised in the Commission's various discussion papers.

Copies of the discussion papers that have already been considered during the current triennium (2013-2015 hearings and visits) are available from the Commission's website located under the Quick Links section of the Department of Treasury and Finance's website www.treasury.tas.gov.au.

Over the past two years the Commission has met and received a significant number of submissions from most Tasmanian councils. The Commission appreciates the effort councils make, and the views councils contribute, at the hearings and visits and regard these as important inputs into its deliberations. The Commission particularly values face-to-face interaction with councils. Hearings and visits provide insights into relevant issues not discernible from the review of quantitative data alone. The Commission encourages all councils to participate and contribute to discussions.

While detailed discussions of the results of the Commission's hearings and visits can be found in the Commission's Annual Reports, this paper aims to provide a summary of the status of matters reviewed during the current triennium's hearings and visits held over March-April 2013 and March-April 2014. The 2013-14 and 2014-15 distributions were 'between years' such that only data updates were applied.

2013 Hearings and Visits

2013 Discussion Papers

The Commission circulated discussion papers and reports to councils on the following issues during January 2013:

- Discussion Paper – DPI3-01 Issues identified by councils
- Discussion Paper – DPI3-02 Review of Cost Adjustors in the Base Grant Model

DPI3-01 Issues identified by councils

Climate change

The Commission decided not to take any action for the present but will maintain a watching brief.

Service diversity

The Commission decided to take no further action in relation to service diversity.

Severe economic impact

The Commission agreed to consider events that may be considered "severe economic impact" on a case by case basis.

Base Grant Issues

DPI3-02 Review of Cost Adjustors in the Base Grant Model

The Commission resolved the following:

- To disclose the existing range factor adjustments for all cost adjustors in the Annual Report;
- that no change in Commission methodology would be undertaken following the review of the Dispersion, Isolation, Worker Influx and Unemployment cost adjustors;
- in relation to the absentee population cost adjustor:
 - to endorse the existing approach of +33.8 per cent range factor adjustment in respect of the 2013-14 assessments,
 - to endorse an in principle reduction in the range factor in 12 months (2015-16 assessment), subject to discussion with councils.

The Commission requested the absentee population cost adjustor be the subject of consultation with councils via a Discussion paper for the 2014 Hearings and Visits.

Other Issues raised by councils

Road Grant Issues

Some councils expressed a desire for the Commission to consider council retaining wall assets and road aspects in its Roads Preservation Model (RPM) rather than just the gradient of the roads. The Commission had concerns that the assumed practices as included in its road methodology did not necessarily reflect council practices on the ground.

The Commission is seeking further comment from councils.

2014 Hearings and Visits

2014 Discussion Papers

The Commission circulated four discussion papers and reports to councils on the following issues in February 2014:

- Discussion Paper DPI4-01 – Review of Cost Adjustors in the Base Grant Model
- Discussion Paper DPI4-02 – Review of Water and Sewerage Sector Returns
- Discussion Paper DPI4-03 – Tasmanian Freight Survey
- Discussion Paper DPI4-04 – Review of Commission Processes

Base Grant Issues

DPI4-01 – Review of Cost Adjustors in the Base Grant Model

Scale (Administration)

The Commission has decided to retain the cost adjustor in its current form providing a maximum redistribution of +200 per cent for Flinders Island Council. Consistent with the Commission's general principle that updates or revisions to cost adjustors operate with effect from the commencement of the new triennial period, the Commission has decided to adopt the updated regression results, with its initial application being in respect to the 2015-16 base grant allocations.

Scale (Other)

As no evidence was presented that indicated the cost adjustor is too generous, the Commission has decided to retain the cost adjustor, adopt the revised regression formula with effect from 2015-16, continue to apply the cost adjustor to the existing expenditure categories and retain the Scale (Other) Cost Adjustor upper limit of range at +50 per cent for Flinders Island Council as the most affected council.

Population Decline

The Commission was not persuaded that the reintroduction of the cost adjustor to recognise population growth was warranted. The Commission has decided that the Population Decline Cost Adjustor should continue to remain at the 5 year average for this triennial period and will modify the cost adjustor to adopt the 3 year average of population movements from 2015-16 grant recommendations onwards.

Tourism

The Commission decided to:

- continue to apply the Tourism Cost Adjustor using the same daytripper information the Commission has applied for the past two grant recommendations and retain the existing weightings between daytripper and bed capacity data, for the duration of the current triennium;
- investigate other options for sourcing suitable daytripper information; and
- if no alternative data source is identified, reassess the ongoing application of the Tourism Cost Adjustor.

Climate

The Commission decided that the use of a long term average for rainfall was the most appropriate measure for the current cost adjustor, which is really a “rainfall” cost adjustor. The Commission concluded rain intensity relates more to the wider question of climate. The Commission has decided that the Climate Cost Adjustor should continue as it is currently applied and that its scope not be extended. The Commission decided to review climate again at the commencement of the next triennium.

Absentee Population

In the absence of a compelling case for any change, the Commission has decided to not vary the range factor used for the Absentee Population Cost Adjustor for the new triennial period.

DPI4-02 – Review of Water and Sewerage Sector Returns

The Commission decided to implement full backcasting for three years of water and sewerage returns received from TasWater or the former regional water corporations to align with the equity proportions that now apply to such distributions.

Road Grant Issues

DPI4-03 – Tasmanian Freight Survey

As the Tasmanian Freight Survey is considered by the Commission as a data update, a decision was taken to adopt the 2011-12 Tasmanian Freight Survey results for the 2014-15 Road Grant deliberations. Furthermore the Commission decided to adopt a definition of urban using bounded localities of populations > 200 for classifying the freight task results.

Commission Processes

DPI4-04 – Review of Commission Processes

The Commission undertook to incorporate the following changes into its processes:

- discussion papers be provided to councils earlier for consideration as part of the hearings and visits process, ideally prior to the end of the calendar year;
- training forums for all councils be conducted each four years (preferably in conjunction with LGAT);
- regional forums be held every two or three years (specifically in the first year of a new triennial period); and
- feedback on council submissions and Commission decisions be provided to councils.

Other Issues raised by councils

In addition to the discussion paper topics, councils were invited to raise other issues with the Commission. A number of councils raised the topic of recognition of special roads not adequately catered for by the current roads methodology. In response to council concerns, the Commission will prepare a Special Roads Discussion Paper for the 2015 Hearings and Visits.

Of the numerous issues raised by councils, many were not matters requiring further consideration by the Commission as they did not reflect inherent advantage or disadvantage but rather policy choice or council response to given circumstances. However there were a number of issues raised by councils requiring follow up by the Commission.

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| • Issue of itinerants and temporary workers | - The Commission proposes to revisit its cost adjustors to ensure they are adequate for contemporary circumstances. |
| • Obstacles/impediments to voluntary amalgamations | - The Commission has provided advice to the Treasurer/Minister for Planning and Local Government on this matter. |
| • Recent changes in facilities impacting on regional responsibilities. | - The Commission proposes to revisit the regional responsibility factor for all councils in the next triennium. |

2015 Hearings and Visits

2015 Discussion Papers

The Commission has circulated two discussion papers to councils on the following issues in December 2014:

- Discussion Paper DPI5-01 – Review of Revenue Capacity in the Base Grant Model
- Discussion Paper DPI5-02 – Special Case Roads