

## Conversation Starter CS22-01:

# Administration Expenditure – Cost Adjustors

- ON WHAT BASIS ARE COUNCILS ATTRIBUTING ADMINISTRATION EXPENDITURE?
- TO WHAT EXTENT IS SCALE A FACTOR IN DETERMINING ADMINISTRATION COSTS?
- DOES REMOTENESS STILL HAVE A MATERIAL IMPACT ON EMPLOYEE COSTS?
- TO WHAT EXTENT DOES POPULATION IMPACT ON COUNCIL EXPENDITURE?

As part of a process of continual improvement, the State Grants Commission (the Commission) regularly seeks council feedback and comments on the Commission's processes and dealings with councils.

The Commission also seeks to better understand the drivers of council revenue and expenditure and also the processes involved in capturing and reporting data in Consolidated Data Collection (CDC) returns.

With these objectives in mind, the Commission is seeking feedback from councils on the following:

- How are councils attributing administration expenditure reported in CDC returns, particularly employee costs?

- Does remoteness still have a material impact on administration expenditure?
- Are the Scale (Administration), Isolation and Population Decline Cost Adjustors duplicating impacts on council expenditures?

The Commission considers these questions to be important for the following reasons:

- Administration expenditure reported in CDC returns is used for calculating the Administration (Scale) Cost Adjustor, which is the largest cost adjustor in the Base Grants Model (BGM).
- There are currently three population-based cost adjustors being applied to administration expenditure in the BGM, including

Administration (Scale), Isolation and Population Decline, which may result in a duplication of inefficiencies in administration expenditure.

- Population decline is not a significant factor for Tasmanian councils.

The feedback received from councils will be used to inform discussions during the 2022 hearings and visits program.

The Commission seeks this engagement while also not wanting to be a burden on council resources.

### Background

On an annual basis, councils are requested to provide details of revenue, expenditure and other data in CDC Returns.

This information is used by the Commission as a basis for

distributing Financial Assistance Grants to councils.

The Commission applies 11 cost adjusters to reflect the inherent relative cost advantages or disadvantages faced by councils in providing services.

Any errors in data reported have a direct impact on the distribution of grants to all councils. Applying more than one cost adjuster to the same expenditure category may also result in assessed expenditure being overstated, particularly if they are both attempting to address the same disadvantage.

The Commission is committed to recognising these differences in the capacity of councils to attract lower costs due to location, scale and population.

The Commission is seeking to better understand the operation of the Scale (Administration), Population Decline and Isolation Cost Adjusters:

### Scale (Administration) Cost Adjustor

The Scale (Administration) cost adjuster accounts for the diseconomies of scale that smaller councils face in providing administration services.

Diseconomies occur because the cost per person of providing a service is greater for councils with a small population than for those councils with larger populations.

A major component of General Administration being reported in

CDC returns is wages and salaries (reported under "Legislative, Executive and Financial and Fiscal Affairs"), which may also relate to other expenditure categories.

**The Commission would appreciate feedback from councils on:**

- What systems do you have in place for separately identifying costs relating to General Administration?
- Does reporting these costs involve any cost allocation decisions (e.g. employees may work across a number of different categories)?
- To what extent is the population of a council significant in impacting on costs?

### Isolation Cost Adjustor

The Isolation cost adjuster recognises the increased costs that arise from geographical isolation. Such costs include attracting staff to remote areas, communicating with relevant bodies, travel and the supply of necessary construction and maintenance materials.

This is calculated according to a weighted sum of distances between each council's administrative (or most populous) centre, relevant regional centres and Hobart, these being the focus for administrative and economic activity within the State.

**The Commission would appreciate feedback from councils on:**

- Given the rapid advancements in communication and other technologies, do you think that remoteness is still a significant factor when it comes to attracting and retaining staff, and in the costs of staff and other inputs?
- To what extent do you think that the inherent cost advantages or disadvantages captured by the Isolation Cost Adjustor are also reflected in the Scale (Administration) Cost Adjustor, particularly as it relates to employee costs?

### Population Decline Cost Adjustor

The Population Decline cost adjuster was introduced when, for varying economic and structural reasons, many councils were impacted by significant declines in population. It reflects the delays that a council can incur when employee and other expenditures do not reduce in line with a declining population.

**The Commission would appreciate feedback from councils on:**

- To what extent is population decline an issue for your council?
- Which expenditure areas are most affected by this cost disadvantage?

## Submissions deadline

To enable discussion at the Commission's 2022 Hearings and Visits which are expected to commence on 8 February 2022, submissions should be received by Friday 28 January 2022.

*These Conversation Starter flyers are not intended to be detailed papers. Council submissions on Conversation Starter issues can take any form councils wish – written and/or discussion at the 2022 Hearings and Visits.*