

Non-Resident Impacts in the Base Grant Model

Service Industry Employment Cost Adjustor

Commission Decision CD21-01

April 2021

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Executive Summary

While councils are impacted by non-residents to differing degrees and for a wide range of reasons, the current Regional Responsibility Cost Adjustor (CA) in the Commission's Base Grant Model 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 largely on judgement.

Over recent years, the Commission has been seeking to develop a measure of the impact of non-residents using a data-informed indicator.

The Commission considers a more logical and defensible way of measuring the irregular flows of non-residents and recognising the associated disadvantages and impacts for councils created by these people movements is a cost adjustor informed by the level of employment in certain industries that have a service focus. The Commission considers this enables it to more objectively assess all councils' relative needs in accordance with the major criteria of its decision making, that is, horizontal fiscal equalisation (HFE) and effort neutrality. As such, the Commission has designed a new cost adjustor, informed by the Australian Bureau of Statistics (ABS) Census Place of Work by LGA data, for this purpose. The Commission has, to date, consulted with councils on this matter using the proposed cost adjustor name Regional Service Industries Employment (RSI) Cost Adjustor (CA).

The Commission has now determined that the more appropriate name for this cost adjustor should be the Service Industries Employment (SIE) Cost Adjustor (CA). When referring to the development of this CA, this paper will reflect the terminology used during the consultation process.

In December 2020, the Commission issued [Discussion Paper DP21-01 Non-Resident Impacts in the Base Grant Model - Regional Service Industry Employment Cost Adjustor - 2021 Proposal](#), which detailed the Commission's finessed version of its previous Regional Service Industries Employment (RSI) CA proposal for discussion with councils at the Commission's 2021 Hearings and Visits. The Discussion Paper also detailed the Commission's decisions to retain its other people flow related cost adjustors being the Worker Influx, Absentee Population and Tourism CAs, while noting that the Tourism CA is also still under review.

In February 2021 the Commission received feedback from councils on its 2021 RSI CA Proposal.

The Commission has considered the feedback received and this paper advises councils of the Commission's consideration and responses to that feedback, and the Commission's subsequent decision in relation to its mechanism for recognising the disadvantages for councils as a result of non-resident people movements.

The Commission has decided that:

- It will replace its existing Regional Responsibility CA only with its SIE CA as defined in this paper;
- The SEI CA, which is informed by the most recent Census data available, will not have a minimum floor or declared city uplift factor;
- That the SEI CA will be implemented with a Major City Cap;
- The Major City Cap will be set at 40 per cent;
- The SEI CA will apply to the Recreation and Culture expenditure category only; and
- The SEI CA will have a redistributive power of approximately \$6.5 million, which is the same redistributive effect as the Regional Responsibility CA.

The Commission reaffirms that the Worker Influx, Absentee Population and Tourism CAs will be retained as part of the Commission's Base Grant methodology.

The Commission confirms that the cost adjustor will be informed by the most recent Census data as it becomes available.

While the 2021 Census data results may differ from the 2016 Census, as it reflects the way people's work has changed in response to the COVID-19 pandemic, the Commission confirms that the 2021 results, and subsequent Census results, will be used to inform the SEI CA as and when they become available.

Should any council wish to make any future comments on this matter, these should be submitted by Monday, 31 May 2021.

The Commission intends to cease the use of its Regional Responsibility CA and commence the use of the SEI CA in its Base Grant Model for the determination of the 2021-22 Financial Assistance Grant recommendations, to be made in July 2021.

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. Based on these reviews, the Commission implements changes as they are determined.

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 its 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.

As part of the Commission's continuous improvement 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 was subsequently broadened to become a review of the Commission's cost adjustors that are designed to account for councils having to service populations that are larger than their normal residential base. Location, facilities and services attract non-residents to enter a council area.

The Commission has previously prepared some scenarios as to how it could progress a solution to this issue. The initial proposal was then further finessed, and council feedback on the finessed proposal sought as part of the Commission's 2021 Hearings and Visits.

The Non-Resident Impacts Review Journey

The Commission has been concerned that its Regional Responsibility CA was not well defined and did not provide an independent objective measurement system which was capable of being effectively applied across all councils. Similarly, many councils have expressed concerns regarding the weightings used in the Regional Responsibility CA.

Every council provides services to non-residents, whether they be short or longer term visitors, whether they are there for business or pleasure, and whether they impact upon current services or the planning for future services and facilities. 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 largely on judgement.

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

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

The Commission commenced this review in 2018 as a periodic review of the Regional Responsibility Cost Adjustor by issuing [*Discussion Paper DP18-01 - Regional Responsibility - The obligations that come with being a major regional hub*](#). This review looked at the Regional Responsibility CA and the basis on which the judgement of weightings assigned to councils had been determined.

The 2018 review failed to identify any independent measures or data sources that were available for many municipalities on which to base or assign the weightings used by the Regional Responsibility CA in the Commission's Base Grant Model.

Further review and consultation with councils on non-resident impacts

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, etc), councils were generally unable to quantify these impacts in a way which would help the Commission to independently model the related disadvantage.

In 2020 the Commission issued [Discussion Paper DP20-01 Non-Resident Impacts - The Bigger Picture](#), in which the Commission discussed with councils how the four non-resident type cost adjustors interplayed. The Commission canvassed several scenarios including the design of a new Regional Service Industries (RSI) CA, based on employment in service industries, similar to the approach used by the Victorian Grants Commission. The Commission had proposed the RSI CA as a possible replacement for both the Commission's Regional Responsibility CA and the Worker Influx CA. The 2020 Hearings and Visit included considerable discussion on why some industries were not included in the dataset informing the 2020 RSI Cost Adjustor proposal.

The Commission heard that most councils leaned towards the general concept of the RSI CA proposal, although feedback indicated that there was still a role for some of the Commission's existing cost adjustors in the Commission's Base Grant Model. There were also issues raised regarding the "floors" and uplift factors which the Commission had used in its sample of the RSI CA. These triggered several queries as to how they were determined. Councils generally preferred the use of the raw data instead of including artificial "floors". After considering the input from councils, the Commission decided that "floors" and uplift factors were not necessary.

In 2021, in [Discussion Paper DP21-01 Non-Resident Impacts in the Base Grant Model - Regional Service Industry Employment Cost Adjustor - 2021 Proposal](#), the Commission advised councils that it had decided to retain the Absentee Population, Worker Influx and Tourism cost adjustors in its Base Grant Model. As the Worker Influx CA is based on all worker inflows and outflows in each municipality for work based on the Census, this addressed the concerns previously raised regarding excluding the level of employment in "other industries" as the non-resident impacts from regular worker movements across all industries will still be reflected in the Commission's methodology. As a result, the service industries flagged as informing the refined RSI CA was supported by councils during the 2021 Hearings and Visits.

The refined 2021 proposed RSI CA outlined in [Discussion Paper DP21-01](#) included a modified cap on the percentage of employment in the service industries. The Commission applied the cap as recognition that capital cities' service industry employment reaches very high levels which may not produce additional proportionate flows of non-residents consuming services. This may be due to the higher proportion of employees providing whole-of-state administration services rather than direct services to non-residents. The Commission also noted that there are both economies of scale or business recoveries offsetting some level of disadvantage suffered where very high levels of service industry employment occur in major cities. The previous illustration of the RSI CA used a "Capital City Cap" as is used in the Victorian model. While the 2020 RSI CA proposal included the operation of a cap set at 35%, being the cap used in Victoria, the Commission's 2021 Proposal included the use of a slightly higher "Major City Cap" of 40%.

In DP21-01 the Commission advised councils that it had modelled the application of its RSI CA to both the Recreation and Culture expenditure category and the Waste Management and

Environment expenditure category (both in total and in part¹). The results indicated that the inclusion of the Waste Management and the Environment category had an immaterial impact on the redistributive effects of the RSI CA. These results were consistent with the discussions the Commission had with councils in 2020, in that most of the expenditure impact of non-residents is in the Recreation and Culture expenditure category, and expenditure incurred in the Waste Management and Environmental expenditure category attributable to the non-residents, that are not part of the typical worker flows, are generally part of user-pays or cost recovery systems (e.g. businesses paying for waste removal through rates)².

While the Commission received some feedback at the 2021 Hearings and Visits regarding the RSI proposal as either detracting from the assessment of Horizontal Fiscal Equalisation entirely, or that the RSI CA approach provides recognition of some councils that don't provide significant "regional" infrastructure, the Commission notes that the new cost adjustor represents a shift away from focusing on the delivery of capital infrastructure, which is often underpinned by policy decisions by councils to service non-residents or the community of a broader region, to that of the employment and recurrent delivery of services to support demand for services by non-residents. This fundamental shift is seen as being consistent with a more effort and policy neutral assessment of the relative needs of councils for Base Grant Funding assistance and a process better informed by objective independent data.

While the Commission has to date consulted with councils on this matter using the proposed cost adjustor name Regional Service Industries Employment (RSI) Cost Adjustor (CA), the Commission has now determined that the more appropriate name for this cost adjustor should be the Service Industries Employment (SIE) CA.

¹ The Commission's Base Grant Model now provides the ability to apply cost adjustors at a different proportion to other expenditure categories e.g. 25 per cent for one category and 100% for another expenditure category) rather than the previous on/off only cost adjustor application mechanism.

² Car parking activities are already excluded from the Commission's methodology.

Service Industry Employment Cost Adjustor Parameters

The Commission has now determined the parameters for its SEI CA to be as follows:

1. Based on the most recent Census results;
2. Based on the ABS Census Place of Work by LGA data as its basis;
3. Using employment statistics as indicated in the service industries as shaded in the following Table:

Table 1: 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	

4. To not contain a floor on the minimum level of employment in service industries;
5. To not apply any uplift factors for LGAs containing declared cities;
6. To have a Major City cap on the level of service industry employment of 40 per cent;
7. For all other LGAs, using the actual percentages employed in service industries;

8. Apply to the Recreation and Culture expenditure category only; and
9. Have a redistributive effect of approximately \$6.5 million.

The Commission considers that the raw data on service industry employment is arguably the preferred data to be used to measure the impacts of non-residents on the delivery of council services. It does however see a need to place a high level cap on the service industry employment rate due to the higher proportion of employees providing whole-of-state administration services rather than direct services to non-residents in major cities in Tasmania. The reasons for this have been explained on page 8 of this paper.

Appendix 1 shows the final version of the Commission's SEI Cost Adjustor. Appendix 2 provides a simple comparison of the cost adjustor impacts of both the Regional Responsibility CA and the SEI CA, based on the 2020-21 Base Grant Model.

It should be noted that the cost adjustor impact value does not represent the dollar impact on any council's grant outcomes. The grant impacts will be less than the cost adjustor impacts due to the level of funding available for distribution being less than the net expenditure requirement of the entire local government sector.

Submissions and timeframes

The Commission now has a policy of continuous improvement of its methodology and implements methodology changes as and when its research and consultation processes have addressed all the issues and the Commission is ready to implement a change.

Should any council wish to make any future comments on this matter, these should be submitted by Monday, 31 May 2021.

Submissions should be forwarded to the Commission as follows:

By Post: Executive Officer
 State Grants Commission
 GPO Box 147
 Hobart TAS 7001

By email: sgc@treasury.tas.gov.au

Appendices

Appendix 1: Service Industry Employment Cost Adjustor

Name	Population POP2018- 19	EmployServiceIndustry	PersonsPlaceUsual Residence	Employed/per 100 Population	EmployServiceRaw	Employed/per 100 Population with Capital City Cap EmployServiceA djusted	Primary Index	Population Weighted Average	Ranged Cost Adjustor		Ranged Cost Adjustor Rank
									Raw Cost Adjustor	Ranged Cost Adjustor	
Break O'Day	6 288	1 127	6 104	18.46	18.46	1.4616	9 190	0.923	0.951	12	
Brighton	17 675	1 645	16 512	9.96	9.96	1.2491	22 077	0.789	0.866	28	
Burnie	19 550	7 352	18 894	38.91	38.91	1.9728	38 568	1.246	1.155	3	
Central Coast	21 938	3 444	21 362	16.12	16.12	1.4031	30 780	0.886	0.928	18	
Central Highlands	2 130	228	2 145	10.63	10.63	1.2657	2 696	0.799	0.873	27	
Circular Head	8 078	1 402	7 920	17.70	17.70	1.4426	11 653	0.911	0.944	14	
Clarence	57 807	10 950	54 818	19.98	19.98	1.4994	86 675	0.947	0.966	11	
Derwent Valley	10 424	1 316	10 022	13.13	13.13	1.3283	13 846	0.839	0.898	22	
Devonport	25 633	7 322	24 702	29.64	29.64	1.7410	44 628	1.099	1.063	4	
Dorset	6 634	1 120	6 619	16.92	16.92	1.4230	9 440	0.898	0.936	15	
Flinders	1 010	215	899	23.92	23.92	1.5979	1 614	1.009	1.006	5	
George Town	6 968	825	6 763	12.20	12.20	1.3050	9 093	0.824	0.889	23	
Glamorgan-Spring Bay	4 602	933	4 400	21.20	21.20	1.5301	7 042	0.966	0.979	7	
Glenorchy	47 969	10 809	46 246	23.37	23.37	1.5843	75 998	1.000	1.000	6	
Hobart	54 649	44 053	50 443	87.33	40.00	2.0000	109 298	1.263	1.166	1	
Huon Valley	17 561	2 196	16 199	13.56	13.56	1.3389	23 513	0.845	0.902	21	
Kentish	6 315	721	6 126	11.77	11.77	1.2942	8 173	0.817	0.884	24	
King Island	1 610	327	1 583	20.66	20.66	1.5164	2 441	0.957	0.973	9	
Kingborough	38 310	5 858	35 852	16.34	16.34	1.4085	53 959	0.889	0.930	17	
Latrobe	11 638	1 950	10 700	18.22	18.22	1.4556	16 940	0.919	0.949	13	
Launceston	68 007	26 180	65 274	40.11	40.00	2.0000	136 014	1.263	1.166	1	
Meander Valley	19 844	3 176	19 281	16.47	16.47	1.4118	28 016	0.891	0.931	16	
Northern Midlands	13 437	1 755	12 821	13.69	13.69	1.3422	18 035	0.847	0.903	20	
Sorell	15 603	1 594	14 415	11.06	11.06	1.2764	19 916	0.806	0.877	25	
Southern Midlands	6 290	505	6 042	8.36	8.36	1.2090	7 604	0.763	0.850	29	
Tasman	2 414	479	2 372	20.19	20.19	1.5048	3 633	0.950	0.968	10	
Waratah-Wynyard	13 828	1 932	13 575	14.23	14.23	1.3558	18 748	0.856	0.909	19	
West Coast	4 175	868	4 152	20.91	20.91	1.5226	6 357	0.961	0.976	8	
West Tamar	24 070	2 452	22 719	10.79	10.79	1.2698	30 565	0.802	0.874	26	
State Total	534 457	142 734	508 960				846 513	PWA = 1.000	PWA = 1.000		
				Lower Limit		1	PWA = 1.584	Minimum = 0.763	Minimum = 0.850		
				Upper Limit		2		Maximum = 1.263	Maximum = 1.166		

Appendix 2: Comparison of Regional Responsibility and Service Industry Employment Cost Adjustor Redistributive effects			
	Current methodology RR Cost Adjustor applying to Rec & Culture	Changed methodology SEI Cost Adjustor applying to R&C 100% only Major City Cap 40%	Cost Adjustor Impact Difference
Council	\$	\$	\$
Break O'Day	- 155 973	- 77 481	+ 78 492
Brighton	- 438 427	- 596 277	- 157 850
Burnie	+ 57 689	+ 766 113	+ 708 423
Central Coast	- 544 170	- 399 702	+ 144 469
Central Highlands	- 52 834	- 68 279	- 15 444
Circular Head	- 200 374	- 115 029	+ 85 345
Clarence	+ 170 581	- 492 151	- 662 732
Derwent Valley	- 258 567	- 268 458	- 9 891
Devonport	+ 75 640	+ 405 902	+ 330 262
Dorset	- 164 556	- 107 519	+ 57 037
Flinders	- 25 053	+ 1 426	+ 26 479
George Town	- 172 841	- 195 818	- 22 977
Glamorgan-Spring Bay	- 114 152	- 24 929	+ 89 223
Glenorchy	+ 141 550	+ 2 154	- 139 396
Hobart	+ 161 262	+2 291 348	+2 130 086
Huon Valley	- 435 599	- 433 450	+ 2 149
Kentish	- 156 643	- 184 295	- 27 652
King Island	- 39 936	- 10 942	+ 28 994
Kingborough	- 950 277	- 677 022	+ 273 254
Latrobe	- 288 680	- 150 411	+ 138 268
Launceston	+5 863 444	+2 851 428	-3 012 016
Meander Valley	- 492 229	- 344 050	+ 148 179
Northern Midlands	- 333 304	- 327 188	+ 6 115
Sorell	- 387 031	- 483 321	- 96 289
Southern Midlands	- 156 023	- 237 616	- 81 593
Tasman	- 59 879	- 19 222	+ 40 657
Waratah-Wynyard	- 343 003	- 317 776	+ 25 227
West Coast	- 103 561	- 25 760	+ 77 801
West Tamar	- 597 055	- 761 675	- 164 620
State Total	+6 470 166	+6 318 371	- 151 795



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