

Commission Decision CD22-01:

Removal of Tourism & Population Decline Cost Adjustors

As part of the 2022 hearings and visits, the Commission sought feedback from councils on the impacts of visitor numbers and population decline on expenditure categories, particularly as they related to the Tourism and Population Decline Cost Adjustors included in the Base Grants Model (model).

This included consideration of the appropriateness of data sources used to measure visitor numbers and the extent to which the cost disadvantages associated with a declining population are captured by other cost adjustors.

These issues were outlined in Discussion Paper DP22-01 "Tourism Cost Adjustor Review" and Conversation Starter CS22-01 "Administration Expenditure Cost Adjustors".

Following the feedback received, the Commission has determined to remove the Tourism and Population Decline Cost Adjustors from the model.

Background:

Tourism Cost Adjustor

In Discussion Paper DP22-01, "Tourism Cost Adjustor Review", the Commission identified a number of issues with the current Tourism Cost Adjustor and indicated its preference that it be removed from the model. This was due to, amongst other things, concerns around the reliance on survey information as the primary data source and a weak correlation between visitor numbers and expenditure categories used in the Tourism Cost Adjustor.

Based on the written submissions received, there was an acknowledgement from councils that the current data source is not an accurate reflection of actual visitor numbers.

Some councils also argued that the level of funding should be increased as councils are required to provide services to visitors but do not receive any direct financial benefit in return.

The Commission also considered the following verbal feedback from councils during the 2022 hearings and visits:

- While visitors to Local Government Areas do represent a cost to councils

through the increased use of public amenities, rubbish collection and roads, it is difficult to determine, for any cost category, the extent to which these costs are due to visitors.

- The increased net costs associated with tourism are mostly attributable to day trippers, free campers and RV campervans as councils generally do not receive any fees or cost recovery from these types of visitors. For tourists staying in hotels or motels, councils do obtain some financial benefits through rates collection.
- Councils are generally supportive of growing visitor numbers in their municipality as there is an expectation that this generates higher levels of commercial activity and population growth, which results in increased rates revenue over the longer term. As such, tourism can be viewed as a part of economic development.
- While most councils do not hold any particularly strong views regarding the removal of the Tourism Cost Adjustor, a few believed that there still needs to be

recognition of the costs associated with providing tourism infrastructure and services, including roads and visitor centres.

Based on the feedback received, the Commission formally determined to cease applying the Tourism Cost Adjustor in the Base Grant Model effective from the 2023-24 Recommendations.

The Commission considers that its removal will not have a material impact on the distribution of Base Grants funding to councils, which ranges from approximately +\$12,000 to - \$12,000 across all councils as detailed in the Discussion Paper.

Population Decline Cost Adjustor

In Conversation Starter CS22-01 "Administration Expenditure Cost Adjustors", the Commission considered the impact of population decline on councils and whether having three population-based cost adjustors (i.e. Administration (Scale), Isolation and Population Decline) in the model resulted in the duplication of the same cost disadvantages.

The Population Decline Cost Adjustor was introduced when, for varying economic and structural reasons, many councils were impacted by significant declines in population. It reflects the delays that arise between a

declining population and consequent reductions in employee costs and other expenditures.

The feedback received from councils can be summarised as follows:

- It is difficult to separate the impacts on administration expenditure of isolation, population decline and diseconomies of scale.
- There are long-term costs associated with maintaining infrastructure even in the face of population decline.
- Rates are calculated based on the number of properties and are not necessarily impacted by population decline.
- Population decline was no longer an issue for most councils.

The Commission has determined to cease using the Population Decline Cost Adjustor in the Base Grant Model effective from the 2022-23 Recommendations as population decline is no longer considered a prevalent disadvantage for Tasmanian councils.

The Population Decline Cost Adjustor is the smallest of the cost adjustors and the Commission considers that its removal will not have a material

impact on the distribution of Base Grants funding to councils.

To some extent, the removal of the Population Decline Cost Adjustor is also compensated by other population-based cost adjustors applied to the administration category in the model.