



18 November 2020

Mr Don Challen AM

Chairperson

Premier's Economic and Social Recovery Council (PESRAC)

Via email: secretariat.PESRAC@treasury.tas.gov.au

Dear Mr Challen

We are writing in response to the Premier's Economic and Social Recovery Council's (PESRAC) call for Phase 2 submissions.

As the leaders of the Greater Hobart Strategic Partnership (Hobart City, Glenorchy, Clarence and Kingborough councils), we bring your attention to an issue that has been of concern for some time and seek PESRAC's recognition of the importance of reform in this area.

Specifically, we are concerned that the grant allocations we receive under the the State Grants Commission (SGC) process are inequitable given the nature, extent and relative efficiency of our operations. Each Council has individually raised several issues with the SGC in the past regarding its grant allocation methodology - with limited effect. We believe a collective approach is now required to achieve meaningful reform to the SGC's current approach.

The Commonwealth provides Financial Assistance Grants to local government under legislated national arrangements. In accordance with those arrangements, the State Government has established the SGC to determine how the Commonwealth funds should be distributed amongst councils. For the 2020-21 grant year, \$79 million is being provided in two grant pools: Base Grant - \$37.3 million and Roads Grant - \$41.7 million.

The SGC recommends the distribution of these funds to the State Treasurer. The recommendations are largely based on its data driven model that reflects a set of national principles with supporting state principles.

Under this process, Greater Hobart councils receive just 13% of the grant funds (11% of the Base Grant Pool and 15.4% of the Road Grant Pool) when they account for 37% of the state population.

Whilst recognising the national principles on which the grant distribution process is based, we have identified a range of deficiencies in the current SGC approach that results in the current distribution to us being inequitable. The key issues that require reform to the SGC's model and underlying method are:

Base Grant

- The SGC model does not properly reflect the external cost drivers faced by Greater Hobart councils in several areas:

- road expenditure
- population growth impacts
- regional responsibility impacts.
- The SGC model needs to reflect in a timely manner the revenue and expenditure impacts of COVID on councils.
 - The current flat 3-year averaging approach used by the model is slow to reflect major external shocks to council revenue and expenditure.

Road Grant

The SGC’s Road Preservation Model (on which it bases its recommended road grant allocations) needs reform to properly recognise:

- the cost disabilities faced by Greater Hobart councils in preserving their road assets
- the higher preservation costs of regional arterial feeder roads that connect the State Road Network.

These issues are outlined in more detail in the Attachment to this letter.

As PESRAC would appreciate, the Greater Hobart councils are important drivers of regional economic activity and for the state to maximise its economic growth potential it is imperative that an equitable grant outcome is achieved.

In light of this, we request that PESRAC recognise the critical need for the SGC to address the issues we have identified. This recognition will highlight the need for reform to the SGC’s model to ensure greater equity in grant funds distribution in the context of the need for a coordinated and targeted approach to drive Tasmania’s economic recovery.

We are happy to provide further information on the above issues and welcome an opportunity to discuss the matter with you at the next meeting of the Greater Hobart Mayors Forum. We are also happy to arrange a briefing of your officers. If you are interested in furthering this discussion please have your office contact the office of the Lord Mayor, Cr Anna Reynolds on 6238 2702 or at lord.mayor@hobartcity.com.au.


Yours sincerely



Lord Mayor of Hobart
Cr Anna Reynolds



Mayor of Clarence
Ald Doug Chipman



Mayor of Glenorchy
Ald Kristie Johnston



Mayor of Kingborough
Cr Dean Winter

cc David Hudson, Chair State Grants Commission

cc The Hon Peter Gutwein MP, Treasurer

Attachment - Areas for SGC grants distribution model reform

This attachment outlines a range of issues that the Greater Hobart Strategic Partnership (GHSP) considers need to be addressed by the State Grants Commission (SGC).

Base Grant

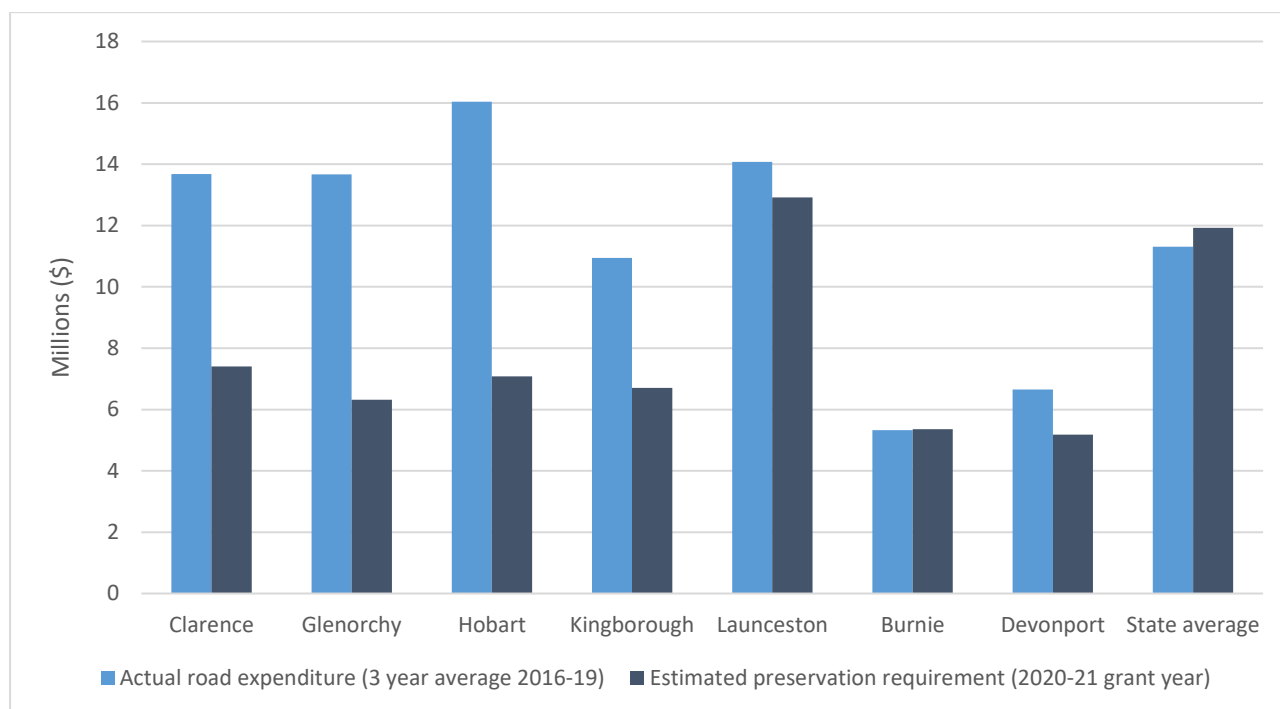
Road Expenditure

The SGC currently uses the relativities arising from its Road Preservation Model (which determine council Road Grant allocations) to standardise the council expenditure on road maintenance. This approach to standardising road expenditure is significantly different to the approach to all other expenditure categories – where the standardisation uses a process involving:

- apportioning the total state expenditure for an expenditure category across councils based on their population share (i.e. to get the average spend per council)
- applying any relevant cost adjustors to arrive at the standardised expenditure.

The SGC's Road Preservation Model estimates (see Figure 1) a road preservation requirement for GHSP member councils that is well below what they actually spend on road maintenance. It estimates a preservation requirement that is 54% of actual expenditure for Clarence, 46% for Glenorchy, 44% for Hobart, 61% for Kingborough – or 51% for GHSP combined.

Figure 1: Actual Road Expenditure vs Estimated Road Preservation Requirement



For the other major metropolitan councils:

- the outcome for Launceston and Devonport is similar, but the gap between actual and estimated is smaller (the estimated road preservation requirement is 92% of Launceston's actual spend, and 78% for Devonport)
- for Burnie the situation is reversed, with the SGC estimating a preservation requirement that is 101% of their actual 3-year average expenditure.

From a state perspective, the SGC model estimates a preservation requirement that is slightly above (105%) the total state expenditure on roads.

While individual council policy decisions on road maintenance might explain some of this difference, it is unlikely to account for all of it when considered across all GHSP members.

Importantly, this method of using the Road Grant relativities to standardise the road expenditure used in the calculation of Base Grant allocations **does not** comply with the national Horizontal Fiscal Equalisation (HFE) principle that the SGC is required to implement.

- The HFE principle requires that Base Grant funding be allocated to *“ensure that each local governing body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State”*.
- The current SGC standardisation approach does this for general revenue and most expenditure categories by using the average revenue and expenditure across all councils (based on Assessed Annual Values for rateable properties and population respectively) as a key step in standardising revenue and expenditure.
- However, the current approach to standardising road expenditure does not reflect the average expenditure on roads by all councils. Rather, it applies relativities between councils that is based on the SGC’s Road Preservation Model outcomes. That model calculates those relativities based on a set per unit preservation cost split between asset types. Arguably this approach does not reflect some of the cost drivers being experienced by GHSP members and reflected in their actual road expenditure.

Consequently, the GHSP considers the current SGC approach to road expenditure standardisation significantly disadvantages GHSP members, particularly as 23% of GHSP total actual expenditure is on road maintenance activities.

Population Growth Cost Adjustor

The SGC model has a cost adjustor for additional costs experienced because of population decline, but not for additional costs experienced because of rapid population growth. Within GHSP, Clarence (3.9% for 3 years June 2017-2019), Hobart (4.7%) and Kingborough (4.3%) are experiencing population growth rates well above the state average (2.6%).

GHSP members with rapidly growing populations face a range of costs that they are unable to fully recover initially. Early investment in growing areas is vital to support community development, however there is usually a long lag time between when Councils invest in growing areas and when residential growth generates rates revenue. The growing pains of having to provide new public infrastructure, community services, roads, playgrounds and recreation reserves to support rapid population growth come at a cost. Council areas without rapid population growth do not face these demands or financial strains.

A cost adjustor is required to adjust relevant spending categories for this expenditure disadvantage. It is notable that both Victoria and Western Australia have population growth cost adjustors.

GHSP members consider that the SGC should investigate the introduction of a population growth cost adjustor.

Regional Responsibility Cost Adjustor

The SGC has a regional responsibility cost adjustor that it is reviewing. It is understood that the SGC is focusing on developing a new adjustor that reflects the impact of non-residents on council expenditure and that this reform may lead to the rationalisation of other cost adjustors (e.g., worker influx).

GHSP members collectively have regional expenditure responsibilities not experienced by most other councils bar perhaps Launceston. These include the provision of facilities and services used by the regional population (including the residents of neighbouring GHSP member councils) such as the Hobart Aquatic Centre, Salamanca Market, the Kingborough Sports Centre Precinct and Kingston Park, KGV recreation precinct in Glenorchy and Blundstone Arena in Clarence, the support services necessary for a range of community festivals and so on.

In GHSP member's views, the current Regional Responsibility cost adjustor does not adequately reflect those responsibilities. The regional responsibility cost adjustor has a marginal impact at 1.01 for Clarence, Glenorchy and Hobart and even a negative impact at 0.9 for Kingborough. In comparison, Launceston experiences a significant positive impact at 1.34.

This outcome does not reflect the current realities, particularly when taking into account neighbouring councils the GHSP member councils cater for a regional population of some 67 500 persons in addition to their resident population of almost 199 000. In comparison, Launceston services a regional population of just over 77 000 in addition to a resident population of 68 000.

The SGC has put out two discussion papers on this issue (latest in January 2020). A further discussion paper is expected to be distributed in late 2021 that is designed to test a SGC proposal that has been developed following feedback on options outlined in the January 2020 paper.

GHSP members consider that any proposal put forward by the SGC must adequately reflect their current regional responsibilities – the options put forward by the SGC to date have not done this.

COVID Impacts

It is understood that the SGC is aware that councils have experienced COVID revenue and expenditure impacts but has not yet undertaken any analysis of what this might mean for grant outcomes or what adjustors might be necessary.

The GHSP considers that such impacts are significant, outside the normal policy driven revenue and expenditure impacts experienced by councils each year and likely to persist for some time. The GHSP requests that the SGC amend its approach to ensure that such impacts are appropriately reflected in the model used for grant estimation. Specifically, the GHSP propose that the SGC examine:

- The use of a weighted average process rather than the current flat averaging process.
 - This would give greater weight to more recent council revenue reductions or increased expenditure – but in the context of a process designed to reflect the average experience of councils statewide.
- The use of limited term (i.e., for use during the period when COVID impacts are experience) cost and revenue adjustors to recognise the COVID related revenue and expenditure impacts on GHSP member councils (along with some other metropolitan based councils in the north).
 - This would recognise that GHSP member councils and other significant metropolitan councils are important drivers of regional economic activity and hence the policy choices that they

need to make to limit COVID impacts on regional economic activity should be viewed in a different context to the policy choices that other councils make.

- At a conceptual level, this approach has parallels to the Regional Responsibility, absentee population, tourism and worker influx cost adjustors in that it will adjust for expenditure disabilities that are driven by non-resident populations.

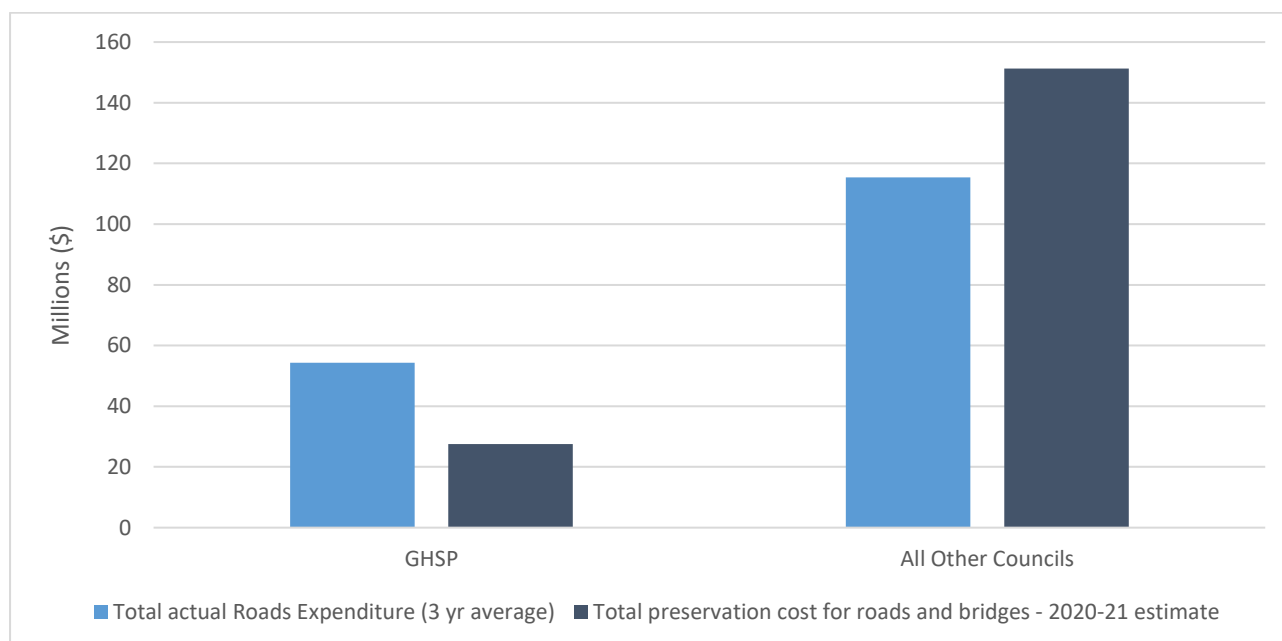
Road Grant

Road Preservation Model

As outlined earlier, the SGC's Road Preservation Model estimates (see Figure 1) a road preservation requirement for GHSP member councils that is well below what they actually spend on road maintenance.

This difference is further highlighted when considering the total model estimates for all other Councils, which shows that the model undershot the actual GHSP roads expenditure by \$26.8 million and overshot the roads expenditure of all other councils by \$35.9 million (see Figure 2).

Figure 2: Total Roads Expenditure versus Total Estimated Preservation Cost



In GHSP member's views, it is highly unlikely that the difference is explained by differing policy decisions of individual councils. Rather, it is more probably that the model is not properly recognising the cost disabilities faced by GHSP members in preserving their road assets.

Regional arterial feeder roads

Currently, the SGC Roads Preservation Model has an allowance for the additional cost of maintaining specified roads for Councils with Central Business Districts, and also has a traffic cost adjustor that provides a measure of the relative cost disadvantage associated with higher than average volumes of heavy vehicles on council road networks.

However, GHSP councils consider the model does not recognise the increased preservation costs of council regional arterial feeder roads that connect the State Road Network. The engineering costs of constructing these regional arterial roads that run through Greater Hobart are higher, as the roads are deeper, wider and often require additional space for parking and traffic signage. In addition, the

maintenance cost associated with such roads is higher than for normal urban sealed roads, as maintenance works are often conducted at night with higher night costs. There is no allowance for any of these additional costs in the current model.