



AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION'S POSITION PAPER 2008/04: *OVERVIEW*

January 2009



VIEWS ON THE COMMISSION'S ASSESSMENT PROPOSALS

INTRODUCTION

The 2010 Review has been run as an iterative process between the Commonwealth Grants Commission (the Commission) and the States and Territories (the States) over the course of the past five years. As part of this process, the ACT has provided a number of submissions in response to Staff and Commission Discussion Papers and refined based on multilateral and bilateral discussions with Commission staff and other States. These submissions outlined the ACT's position regarding the validity of the conceptual case underpinning the assessments and the proposed assessment methods.

It is noted that in some instances the position adopted by the Commissioners, as detailed in the latest Commission Position Papers, is at odds to those of the ACT. In the interests of brevity, the ACT has not sought to reiterate the entirety of its previously stated position unless new data or new thinking has been applied. In this context, a lack of objection (silence) does not imply support where such support has not been previously stated, and instances where comment has been made on refining a methodology does not necessarily imply support for the broader method itself unless otherwise stated.

As such, this submission encompasses views on only major issues of importance to the ACT.

SUMMARY OF PROGRESS WITH ASSESSMENTS

The ACT is comfortable with the outlined progress to date and notes that the revenue assessments are well settled and that many of the conceptual approaches to measuring expenditure disabilities are in place.

While many of the expenditure assessments are largely supported by the ACT in a general sense, other than the capital assessment, clearly concerns exist with various aspects of many of the assessments. Many of these are contained in the January and February 2009 submissions.

MEASURING INDIGENOUS POPULATIONS

Adjustments to ABS Census data

The ACT accepts that the 2006 Census data should be adjusted for undercounts of Indigenous and non-Indigenous people, as well as not stated values, given that it increases the comparability of State data and the ABS has indicated that the way the Commission has used the data are appropriate.

Disaggregating the Indigenous population

The ACT does not support further disaggregation of Indigenous disabilities. While the argument put forward by a number of States that their particular Indigenous

population faces disabilities that are greater than those in comparable regions of other States, due to issues such as dislocation, consistent with the assessment guidelines and what the ACT has said previously, such disabilities should not, in general, be assessed unless the data are available to accurately make such an assessment. Determining the extent of the Indigenous dislocation of one State relative to another, for example, is fraught with difficulty, and such adjustments would be of dubious quality.

The ACT is, however, agreeable with the Commission's proposal to disaggregate Indigenous data to a small degree for the Post-secondary education; Admitted Patients; Community and other health; and Services to communities category as it appears that reliable population and cost data that are comparable across States and are fit for purpose are available.

SOCIO-ECONOMIC STATUS

Measures of SES

The ACT accepts the use of the ABS' Socio Economic Index for Areas (SEIFA) Index to assess low SES impacts given its comprehensiveness. It is preferable to using income as a measure of low SES as income is not fit-for-purpose as it is only a partial (inadequate) measure and represents only one component that should be used to measure low SES.

Where SEIFA indexes are used, the Commission should ensure that there is no double-counting with other disabilities being assessed by using the appropriate index and/or using cross-tabulated data:

- it appears that the use of the Index of Relative Socio-Economic Disadvantage which according to the ABS includes the variable '*% People who identified themselves as being of Aboriginal and/or Torres Strait Islander origin*' double counts Indigeneity impacts within the justice services assessment given that custody rates are used as the main indicator of use. Significant differences in custody rates exist largely because of the differing number of resident Indigenous persons in each State.

The Commission's general principle not to use any form of income as a measure of SES is supported. However, the Commission has stated that income may be considered in categories if required. Should the use of income be necessary, it is requested that in these instances the measure be discounted as they are unreliable. In this context we note the ABS' view that:

*“However, low income does not guarantee disadvantage; it is only an indicator that a household might be disadvantaged. Some low income households may have access to other economic resources such as wealth or support from other households, or their low current income could reflect a temporary situation, such as a business or investment start up.”*¹

¹ Australian Bureau of Statistics, 2039.0 - Information Paper: An Introduction to Socio-Economic Indexes for Areas (SEIFA), 2006, 26 March 2008.

Net worth

While noting that net worth is a reliable and comprehensive measure for assessing low SES impacts, the ACT accepts that administrative data constraints (use and cost data do not record the net worth of users) prevents the Commission from accurately deriving weights to apply to people with low net worth. As such, the Commission's proposal not to use net worth measures as an indicator of SES is understandable.

Cost of living

Conceptual case

The Commission's view that that the conceptual case that cost of living differences exist between and within States is strong is supported.

However, the Commission then argues that the case for a cost of living adjustment fails if State eligibility criteria for services do not recognise differences in costs of living. This argument is flawed as there are a range of disabilities that are assessed even though State eligibility criteria, or resource allocation formulas and agreements, do not include reference to them. For example, administrative scale, wages and the like.

In some cases States do not specifically specify the need for additional spending with regard to a number of disabilities, but the Commission assesses them, for example, the housing market rent adjustment; various economic environment factors (such as the number of General Practitioners); and others.

While the Commission's argument may be partly plausible for intrastate living cost differentials, there is no reason why State eligibility criteria would include reference to interstate driven disabilities such as administrative scale, wages, interstate isolation freight costs, interstate living cost differentials and the like. For the purposes of delivering equitable services, the States would only be interested in adjusting for intrastate impacts. It is not the responsibility of the States to apply nor determine interstate disabilities, an issue that is left solely to the Commission.

Additionally, it is also noted that the Commission often overrides SPP payments and the distribution formulae that have been agreed between the Australian and State governments. This often occurs despite the funding often being allocated on the basis of need, with the Commission determining that other drivers of need are missing and/or the distribution does not accurately capture States' relative needs.

On conceptual grounds the ACT considers that a cost of living adjustment needs to be made.

Materiality

The Commission has noted that the impact of a cost of living assessment is unlikely to be material. To calculate this impact, factors were derived by applying a weight of three (a 'generous' weight) to the low income population and the cost of living adjusted low income populations and one to the remaining population. The factors were applied to an average expense of \$600 per capita and the difference calculated.

While a weight of three may be high, applying the factors to an average expense of just \$600 appears to significantly understate the impact of a cost of living adjustment, and it is not clear why such a low average expense has been used.

The ACT understands that low SES measures are to be used within the Education, Health & Community Services and Law, Order & Public Safety categories, where low SES impacts are the most pertinent. Applying the factors to these expenses generally aligns with the proposed SES disability assessments at Attachment A to Position Paper CGC 2008-04 – *Overview* (other than perhaps VET and public safety for which there is no SES adjustment proposed and transport which is expected to have an SES adjustment).

In this context, applying the weight of three to an average expense of \$4,103.65² for 2006-07 (nearly 7 times the amount of \$600) which is the average expense for the Education, Health & Community Services and Law, Order & Public Safety categories, the **impact is highly material** for Tasmania and material for WA, and nearly material for NSW and the NT as shown in the following table.

**Estimated Impact on GST distribution of cost of living adjustment
for capital cities**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Spatial price index and housing costs applied to average expense of \$600									
\$m	9.15	-1.30	1.11	-4.22	-0.31	-4.52	0.26	-0.27	10.57
\$pc	1.34	-0.25	0.27	-2.05	-0.20	-9.23	0.79	-1.28	7.71
Spatial price index and housing costs applied to average expense of \$4200 *									
\$pc	9.38	-1.75	1.89	-14.35	-1.4	-64.61	5.53	-8.96	53.97

* Calculated by multiplying the CGC's calculated impact by 7.

If the weight used was 2 rather than 3, the low SES impact would still be material for Tasmania and possibly WA.

The ACT considers that there are grounds for assessing living costs as the impact appears to be material for various States

How to assess a cost of living adjustment

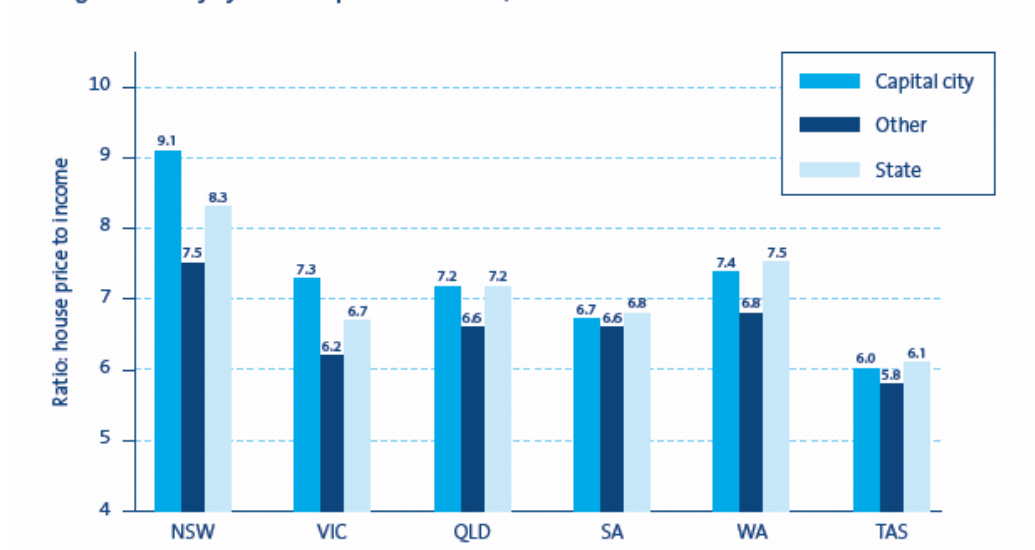
It should also be borne in mind that as the ACT is a city-State, with nearly all of its population being urbanised, it is very different to the other States. A corollary of being a city-State is that the ACT's relative SDC (SES) is relatively high, particularly due to the absence of a rural sector. The ACT loses approximately \$145m p.a. (\$450 p.c.) from the SDC assessments across all categories as high SES is deemed to be a relative advantage as it reduces the demand for and unit cost of service provision for some services.

² Report on State Revenue Sharing Relativities 2008 Update, Relative Fiscal Capacities of the States, Attachment C Summary of assessed revenues and expenses, Table C-10.

In this context using spatial and housing costs for capital cities only, overstates the position of those States with larger rural populations relative to the ACT because, for example, housing rents tend to be less in rural areas.

Whilst urban populations tend to have higher income levels, they also face higher associated housing costs. This is particularly the case for the cities. The 19th AMP-NATSEM report on trends in housing affordability and housing stress provides clear evidence that housing affordability in areas outside the capital cities is much better than within capital cities, as shown in the following graph.

Housing affordability by state and place of residence, 2005-06



Source: Trends in housing affordability and housing stress, 1995-96 to 2005-06 AMP.NATSEM Income and Wealth Report Issue 19 - March 2008, page 11.

These living costs are not currently captured in the assessments, and this position contrasts with the assessment of rural/remote driven costs (captured via the location factor).

The ACT's capital-city cost impacts are demonstrated in the following table from the Productivity Commission which shows that the proportion of income units receiving CRA spending over 30% of income on rent with CRA in the ACT at 44.6% is by far the highest for any State and well above the Australian average of 34.3%.

**Commonwealth Rent Assistance - proportion of income units receiving CRA
spending over 30% of income on rent, with % without CRA, 2007 (%)**

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>ACT</i>	<i>NT</i>	<i>Aust</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Capital City									
With CRA	43.9	35.5	36.0	31.8	31.7	32.2	44.4	34.0	37.6
Without CRA	71.2	67.9	65.4	62.2	62.4	67.2	68.8	65.2	67.4
Rest of State									
With CRA	30.7	25.2	34.4	23.8	20.4	23.3	np	25.7	30.0
Without CRA	63.3	60.1	65.1	55.4	52.5	59.1	np	59.6	62.4
Total									
With CRA	37.8	32.3	35.1	29.8	29.0	27.1	44.6	32.2	34.4
Without CRA	67.6	65.5	65.2	60.5	60.0	62.5	68.8	63.9	65.3

Productivity Commission, *Report on Government Services*, 2008, Table 16A.68.

Despite data constraints, and the fact that they will not pick up all of the ACT's living cost impacts driven by it being a city-state, there is enough reliable data that can be used to undertake a cost of living adjustment. For example, by introducing the combined Spatial price index and Housing cost measure (which may include some reference to CRA payments as this captures housing stress / cost impacts for capital and non-capital cities) to adjust low income population proportions across the States.

The ACT requests the introduction of a cost of living adjustment as already largely developed by the Commission in its *Overview Position Paper*.

CULTURAL AND LINGUISTIC DIVERSITY (CALD)

Cultural and Linguistic Diversity

The assessment of Cultural and Linguistic Diversity (CALD) disabilities are not supported unless robust data can be provided that meets the 2010 Review assessment guidelines criteria.

Refugee and humanitarian migrants

While it is accepted that refugee and humanitarian migrants may impose costs on States, the ACT notes that the data are policy influenced and data are of questionable quality as the number of refugees in each State would need to be tracked and estimated given that the actual location of where migrants actually settle is not known.

Additionally, as indicated by the Commission, better estimates of the number and cost impacts of refugee and humanitarian migrants is required before an assessment can be made.

In this context, it is considered that an assessment of refugee and humanitarian migrants will not meet the assessment guidelines criteria.

NATIVE TITLE AND LAND RIGHTS

It is noted that a Commission position paper is to be sent to States on possible effects of the Australian Government Initiative on the NT's native title and land rights expenses.

TRANSIENT POPULATION

The ACT supports the Commission's position proposal not to make any adjustment for the effect of transient populations on service provision unless supporting States can find a reliable way of capturing the relevant population for particular categories and can demonstrate how this group affects State service provision requirements and State budgets.

SUPERANNUATION

The ACT notes the superannuation proposals put forward by the Commission.

Federal Financial Relations Unit
Department of Treasury
Australian Capital Territory Government