



AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION'S DISCUSSION PAPER 2008/22-S: SERVICES TO COMMUNITIES

February 2009



VIEWS ON THE COMMISSION'S ASSESSMENT POSITION

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 four years. As part of this process the ACT has provided a number of submissions in response to the Staff and Commission Discussion Papers, incorporating subsequent multilateral and bilateral discussions with Commission staff and other States. These submissions outlined the ACT's position as to the validity of the conceptual case behind a number of assessments and the proposed assessment methodologies.

It is noted that in some instances the position adopted by the Commissioners, as detailed in the latest Commission Position Papers, is at odds with that 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 light, a lack of objection does not imply support where such support has not been previously stated. As such, this submission encompasses the ACT's views solely on major issues.

Should concession CSO expenses be moved to the Welfare and housing category?

The ACT supports the Commission assessing expenditure on concession CSOs in the Welfare and housing assessment category because the nature of the service being provided is consistent with what is being assessed in that category.

The provision of CSO payments to concession card holders is a welfare activity. Indeed in the ACT, the Department of Disability, Housing and Community Services is responsible for providing public housing and community services as well as administering the ACT Concessions Program. Both of these programs have common policy objectives, namely, to achieve a balance in the standard of living, and access to essential services, for all members of the community.

The ACT considers the drivers of need for both services to be broadly similar. For example, the broad indicator proposed in the Housing and welfare category uses Commonwealth pension or benefit payments to determine state need. Many of these payments align with the eligibility criteria for persons obtaining a Commonwealth Pensioner Concession Card - which forms the basis for the broad indicator in the Services to communities assessment. Examples of such payments include the:

- age pension;
- single parenting payment;
- Newstart allowance; and
- carer payment (adult and child).

Moving concession CSOs to the Housing and welfare assessment has the potential to simplify the Services to communities assessment. As the service populations that drive expenditure on concession CSOs have similar characteristics to users of housing and welfare services, the proposed alternative treatment better recognises state differences in the drivers of water and electricity concession expenses.

Is the proposed method for redistributing water and energy concessions CSOs using concession card holder data adequate to capture different state needs?

The ACT supports the proposal to assess the differences in state need using a broad indicator.

The concession cards that form the basis of the proposed broad indicator are Commonwealth issued cards that satisfy eligibility criteria determined by the Commonwealth. The ACT notes that these criteria may not necessarily mirror those of the States. However, an assessment based on state-issued concession cards would include considerable policy influence. Therefore, in the absence of a more appropriate dataset, the ACT recognises that a state's proportion of concession card holders may be the best policy-neutral measure of different state needs.

To further inform the ACT's position on this issue, it would be appreciated if information was provided to the states detailing the cards that the Commission intends to include in the indicator and how the measure will be constructed.

Is the proposed method for redistributing the electricity general subsidy CSOs by very remote population data adequate?

Given the ACT's geographical characteristics it is unable to comment on the extent to which very remote population are not connected to the electricity grid or whether the proportion of that population is an adequate measure of need.

Is the proposed treatment of water general subsidies adequate?

The ACT does not support the proposed approach to assessing general water subsidies on an actual per capita (APC) basis. In a similar fashion to the ACT's position on assessing water CSOs APC, concerns exist over the degree to which policy influence will impact state expenditure in this area throughout the 2010 Review application period. These impacts include:

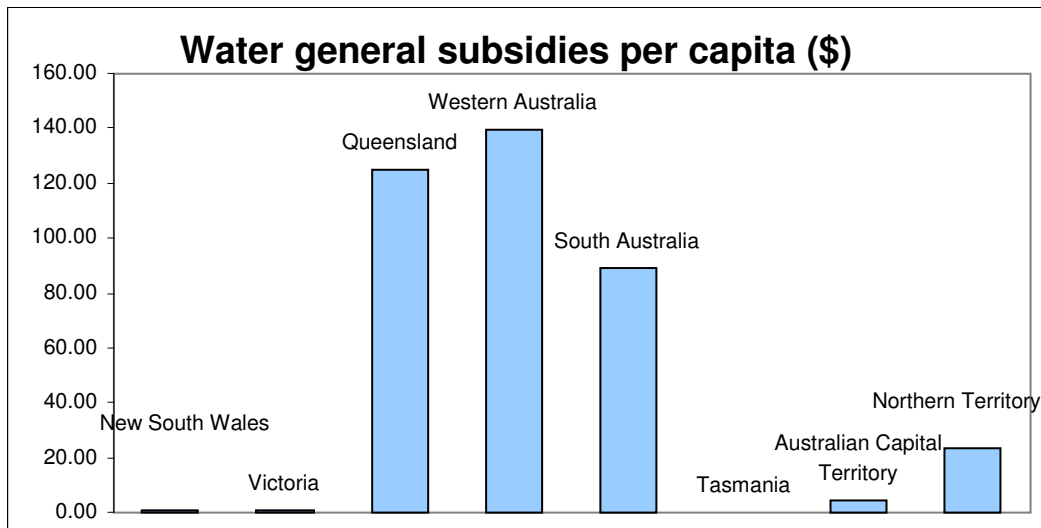
- how water is delivered (for example, using a desalination plant rather than a dam);
- internal cross-subsidies (the extent to which urban areas subsidise the cost of providing access to water in non-urban areas); and
- the elements included for cost recovery purposes (the ability for jurisdictions to identify and cost economic impacts, including planning and security measures).

Further detailed evidence of these differences and their impact on the cost of water provision has been provided in previous submissions.¹

State water general subsidy data

In its Discussion Paper, the Commission provided data on the water general subsidies paid by each state. These subsidies are presented on a per capita basis for each state in the following diagram. The diagram demonstrates the large differences in water general subsidies across jurisdictions.

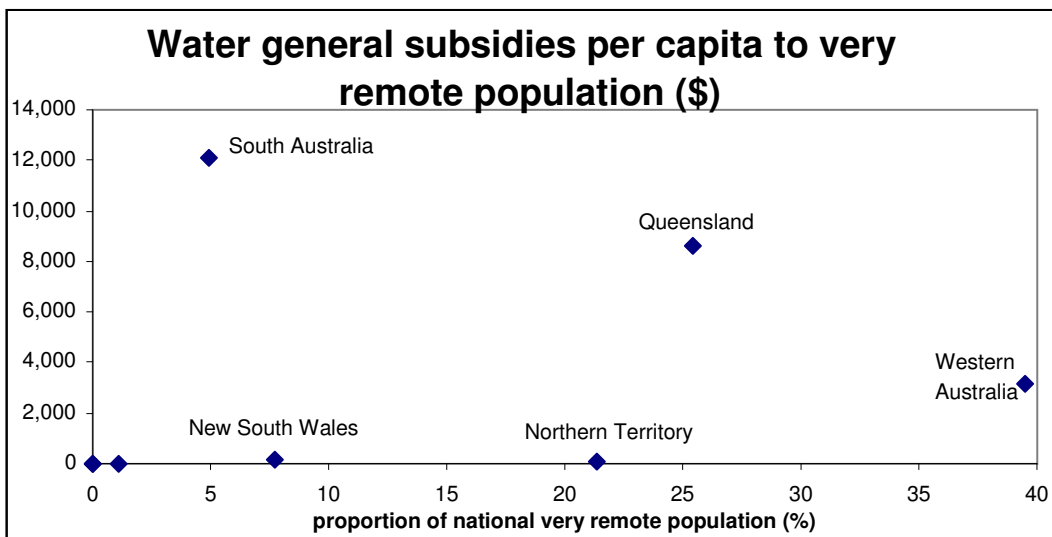
¹ ACT Submission to the Commonwealth Grants Commission: Services to Communities (July 2008).



Source: CGC Discussion paper 2008/22-S: Table 5; ABS Cat 4102.0 *Population Distribution*

The Commission notes that water general subsidies are usually only available to remote communities where it is more costly to provide domestic water – with the exception of water quality and accessibility needs in other areas. If this is the case, it would be expected that a relationship would exist between the size of a state’s water subsidy per capita and its proportion of population in very remote areas.

The following diagram illustrates that the relationship is not clear. The material differences in costs relative to remote population indicate that policy influence is inherent in the water subsidies.



Source: CGC Discussion Paper 2008/22-S: Table 5 & 6; ABS Cat 4102.0 *Population Distribution*

For example, the conceptual basis of minimal policy influence is difficult to support when the water general subsidies paid by Queensland is \$8,661 per capita for their remote population, while the Northern Territory spends \$100.

The ACT would be interested in seeing further evidence that explains the outlier status of Queensland and South Australia and demonstrates how an APC assessment reflects the physical or economic nature of each jurisdiction. For example, no explanation has been provided detailing why access to water in remote regions in Queensland costs 86 times more than in neighbouring Northern Territory, or the extent to which the quality of South Australia’s surface

water drives its costs. As per the assessment guidelines the ACT does not feel that an APC assessment will be reliable or conceptually rigorous.

Is the NWC oversight and progress made by the States on urban water supply and pricing sufficient for the proposed treatment?

The ACT is not convinced that the oversight of the NWC and progress of the States on urban water supply and pricing is sufficient to justify the water subsidy assessment being undertaken on an APC basis.

Although it is suggested that the policy influences should largely be removed by 2010, under the guidance of the NWC, the ACT does not share this position. Post-2010, the ACT is confident there will continue to be considerable scope for state judgement surrounding the method of sourcing water, cost recovery and water pricing principles. Most importantly though, the decision on how to deliver water will lead to different costs per kilolitre. These differences in costs will influence the ability for governments to recover costs through pricing practices. The ACT is convinced that, during the 2010 Review period of application, this will affect the level of general subsidies states provide.

For these reasons, as well as those outlined above, the ACT does not support an APC assessment of general subsidies for water. However, if, in the absence of a more appropriate broad indicator, an assessment is made on an APC basis, at a minimum the ACT would seek to have the Commission discount the water subsidy factor to reduce the degree to which policy influence impacts state expenditure in this area.