

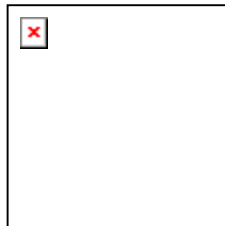


AUSTRALIAN CAPITAL TERRITORY

SUBMISSION TO THE COMMONWEALTH GRANTS COMMISSION'S POSITION PAPER 2009/04

SERVICES TO COMMUNITIES – ASSESSMENT OF WATER SUBSIDIES

November 2009



ASSESSMENT OF WATER SUBSIDIES AND ENVIRONMENTAL PROTECTION

Introduction

The ACT acknowledges the difficulties faced in developing a simple, yet robust model, which can be used to assess a relatively complicated area of State policy, in this case the provision of water subsidies. These difficulties have been compounded by incomplete and incomparable data, as well as by the complex relationships driving average policy on water subsidies.

Despite these difficulties, the Commonwealth Grants Commission (the Commission) attempted to develop a reliable multi-factor assessment based on the limited water quality, availability and cost data provided by the States. The factors derived through this approach, however, appeared anomalous and at odds with accepted information and evidence concerning the level of water needs for particular States. For example, the Commission noted that Tasmania's factor should not be larger than the South Australia's or Western Australia's factor, considering the relative abundance of water in Tasmania.¹

As a result the Commission chose not to use the multi-factor approach. The ACT supports this decision and considers that the multi-factor approach introduced an unnecessary level of complexity into the assessment, and given the peculiar outcomes it produced, the approach actually moved further away from achieving fiscal equalisation.

The Commission's preferred model for water - a simple measure of need

Notwithstanding the data and other difficulties with implementing a reliable water assessment mentioned by the Commission in its Position Paper, the Commission considers that a differential assessment which captures the broad policy features of water subsidies, suitably discounted, would improve the horizontal fiscal equalisation outcome.

For this purpose, the Commission proposes using a relatively simple measure of need based on smaller communities located in poor water areas.

Despite the significant data deficiencies that exist, the ACT is broadly supportive of this proposal provided a suitable discount is applied. For example, the existing assessment proposal outlined in the Position Paper has an implied discount of 11 per cent.²

The ACT questions whether this level of discounting is sufficient, particularly given the:

- available data are far from complete or comprehensive;
- relative importance of community size, water availability and / or quality cannot be measured with certainty; and
- relationships driving the average policy are complex and unable to be accurately captured in a simple assessment.

¹ Commonwealth Grants Commission, Position Paper 2009/04 - *Services to Communities – assessment of water subsidies*, paragraph 52, page 23.

² 11 per cent calculated as 5 per cent/45 per cent, where 5 per cent is the increase in the share of expenses assessed using the environmental protection factor and 45 per cent is the proportion of water subsidy expenses included in the water, sewerage and environmental protection expenses component of the Services to communities assessment.

The ACT considers these shortcomings warrant a more conservative assessment approach. This could be achieved through a more appropriate level of discounting.

It is noted that a 50 per cent discount was used in the investment component of the Capital assessment in recognition that the recurrent disability factor did not exhibit a one-for-one relationship with capital stock disabilities.

The ACT considers that a measure of need based solely on small communities located in poor water areas will similarly fail to exhibit a one-for-one relationship with the broader mix of disabilities driving State water subsidies.

Accordingly, the ACT requests the Commission apply a 50 per cent discount to the water factor to provide adequate recognition of data limitations and hence, uncertainties surrounding the assessment's outcome.

Split of water and sanitation and environmental protection expenses

In the context of the above comments, it is noted that discussions with Commission staff³ have indicated that in 2007-08, State water and sewerage subsidy data accounted for approximately 45 per cent of total water, sewerage and environmental protection expenditure, while environmental protection expenses comprised the remaining 55 per cent.⁴

Whilst acknowledging that the water and sanitation, and the environment splits have required the Commission to exercise judgement, and are subject to change following State submissions and other water subsidy data being provided by the States, it is important that the EPC assessment of protection of the environment needs be applied to the total quantum of protection of the environment expenses.

Assessing environmental protection expenses

The ACT notes that the Commission has no information on the drivers of environmental protection expenses, although it is known that States target a range of disparate areas such as water, air and noise pollution, climate change, soil erosion and salinity.

In this context, and given the complexities already seen in the Commission's attempts to implement a reliable water assessment, the ACT supports the Commission's proposal to assess environmental protection expenses on an EPC basis.

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³ Discussions between ACT Treasury and Commission officials on 17 and 18 November 2008.

⁴ Environmental protection expenses comprised the remaining 55 per cent, rather than the 45 per cent alluded to in footnote (a) of Table 1 in Position Paper CGC 2009/04 – *Services to communities- assessment of water subsidies*.