# Commonwealth Grants Commission — 2020 Review

*Significant changes since the Draft Report*

Submission by the South Australian Department of Treasury and Finance

January 2020

## Introduction

South Australia welcomes the opportunity to comment on the Commonwealth Grants Commission's *Significant changes since the draft report* paper. Comments on the proposed changes are discussed below.

South Australia notes that the Commission has not as yet responded to several significant issues raised in our submission on the Draft report. In this submission, we requested:

- Further consideration of the discount applied to the land tax assessment.
- Consistent treatment of duty on Compulsory Third Party insurance premiums.
- Further consideration of how students from low-SES backgrounds are reflected in the schools assessment.
- Assessment of student transport costs remaining in the Schools category.
- Re-consideration of the application of the wage cost assessment to the Schools category.
- Assessment of non-NDIS disability expenses in the other welfare component (assessment based on SES characteristics).
- Inclusion of the Strzelecki Track on the assessed rural road network.
- The application of a discount to the urban public transport assessment to reflect data concerns and the lack of data points for high density communities.
- Using the number of mining operations to drive the assessment of mining regulation rather than sector size.

South Australia expects that the Commission will address these issues in the preparation of the Final Report. In particular, South Australia would like the regression model for the Schools assessment proposed in the draft report reconsidered. The Commission's proposed models do not reflect the way schools are funded and have produced counter-intuitive results, especially in relation to students from low-SES backgrounds.

## Disaster recovery expenses

South Australia understands that the assessment of natural disaster recovery expenses has been problematic due to uncertainty around states' responsibility for local government disaster recovery expenditure.

It is submission on the Draft Report, Queensland provided information that outlined the extent of Queensland Government support to local government for natural disaster recovery expenses and the context in which that support is provided.

Queensland stated that:

> *The Commission needs to recognise state expenses for local government disaster recovery are non-discretionary:*
>
> - *the cost of recovery in disaster-prone states like Queensland is too high for local governments to bear through own-source revenue and there are no financially viable alternatives (e.g. borrowing or insurance)*
> - *state governments are responsible if local governments cannot afford disaster recovery because they are state statutory bodies, and federal funding is contingent on state contributions under the DRFA*
> - *a speedy recovery is necessary to minimise the impact of disasters and that requires significant capital injection from all levels of government.*
>
> Queensland response to draft Report on the 2020 Methodology Review

Based on information supplied by the Commission, South Australia does not agree that state government contributions to local government are entirely non-discretionary.

The financial capacity of local government and its capacity to fund disaster recovery expenses is a major factor in determining the funding thresholds, eligibility requirements and payment mechanisms applied by state governments. The extent to which local governments have the fiscal capacity to co-fund disaster recovery expenses would vary greatly between local government areas depending on the size of councils, rateable values and fiscal position. The cost sharing arrangements in place in each jurisdiction reflect policy decisions on the level of cost that should (or can) be borne by each level of government.

The Queensland submission states that a number of local governments do not have the revenue bases to increase their own-source revenues, have limited ability to borrow and insurance is not always available for certain asset classes. However, these limitations would not apply equally to all local governments and in all states.

South Australia believes that because state government contributions to local government disaster recovery expenses do have a discretionary element (ie policy determined), state funding should not be included in the assessment given that it is not possible to reflect differences in state policy choices from such an assessment. If the Commission proceeds with their inclusion it should consider the application of a significant level of discounting of the state contribution prior to the deduction of the assessed contribution from local government.

**Mining revenue**

South Australia has no concerns with retaining the assessment of grants in lieu of royalties in the mining revenue category.

**Welfare assessment**

South Australia does not support the Commission's intention to assess other welfare expenses on equal per capita (EPC) basis instead of using SES population characteristics.

Two of the significant expenditure areas incorporated in the other welfare category are assistance for homeless persons and prevention of domestic violence/support to victims of domestic violence.

Homelessness Australia in its *Homelessness and Poverty – Fact Sheet, January 2016* noted that:

> *Poverty is an underlying cause of homelessness. The circumstances of poverty that can lead a person to become homeless include: having little money, debt, a lack of education, poor mental and physical health, disability, reliance on public housing, living in sub-standard accommodation and social exclusion.*

In addition, the Australian Institute of Health and Welfare (AIHW) released *Australia's Welfare 2019* report in September this year which included the following statement:

> "*People experiencing homelessness, and those at risk of homelessness, are among Australia's most socially and economically disadvantaged*."

This report then makes reference to the following:

> "*Homelessness can be the result of many social, economic and health–related factors. Individual factors, such as low educational attainment, whether someone is working, experience of family and domestic violence, ill health (including mental health issues) and disability, trauma, and substance misuse may make a person more at risk of becoming homeless (Fitzpatrick et al. 2013).*"

The AIHW also releases an annual Specialist Homelessness Services (SHS) report. The national data tables from the 2017-18 report show that almost 40% of SHS clients aged 15 and over were not in the labour force and a further 48% were unemployed at the beginning of their support period.

This research and data clearly establishes a strong link between the incidence of homelessness and their socio-economic status. It is therefore appropriate to conclude that SES population characteristics will be a major driver of expenditure on assistance to homeless persons.

In relation to the prevalence of domestic violence and the need for expenditure on support services, Morgan & Chadwick (*Key issues in domestic violence*. Australian Institute of Criminology, 2009) noted that:

> *There is no single cause or factor that leads to domestic violence. A number of risk factors have been identified as associated with perpetrators of domestic violence. These include age, low academic achievement, low income or exclusion from the labour market, social disadvantage and isolation and exposure to, or involvement in, aggressive or delinquent behaviour as an adolescent (Flood & Fergus 2008; NSW Office for Women's Policy 2008).*

Again this leads to the conclusion that SES population characteristics are a driver of expenditure on domestic violence services.

An EPC assessment does not reflect the main underlying cause of homelessness and domestic violence assistance. South Australia believes that the Commission should retain using SES population characteristics as the basis for the assessment of other welfare expenses.

**Water subsidies**

South Australia does not have any concerns with the Commission's intention to broaden the definition of small communities (for the water subsidies) to include communities up to 3000 people (instead of 1000 people). We are also comfortable with the intention to remove the discount from the regional cost weight for small community water subsidies.

**Investment assessment**

South Australia notes the concerns raised by the Northern Territory about negative investment needs. The concept of negative investment needs implies that states can obtain a greater relative advantage from selling these assets compared to holding these assets. As noted in the discussion paper, there are situations where there is no effective market for certain assets in regional areas making disinvestment difficult. Interstate and regional differences in construction costs are unlikely to have an impact on the realisable value of such assets. Accordingly, South Australia is comfortable with the Commission's intention to not apply capital cost factors to negative assessed investment.

South Australia notes the Commission’s intention to retain the current measure of interstate differences in construction costs and the intention to use Rawlinson’s measure of regional costs alone, to apply to interstate cost differences.

**Stamp duty on conveyances**

South Australia is comfortable with the Commission no longer adjusting for Victoria’s off-the-plan concession as transaction data by purchase price is now being provided and will be reflected in the assessment.

South Australia accepts that there has been changes in the way states impose conveyance duty on transfers of interests in landholding entities. The majority of states now have landholder duties (with differences in thresholds and coverage) that capture, transfers of units in property holding trusts.

South Australia is comfortable with the Commission applying an adjustment to transaction values to reflect that most states only apply 10 per cent of their general rate to land rich transactions in listed companies.

**Land tax – expanding the number of value ranges**

South Australia is open to the Commission considering the break-up of the top value range into three ranges in the land tax assessment. We request that the States be provided with the impact of this break-up and the opportunity to comment on the results prior to the release of the Final Report.