

Commonwealth Grants Commission 2020 Methodology Review

Tasmanian Government Submission in response to:
Staff Discussion Paper CGC 2019-02
(Significant changes since the Draft Report)

3 January 2020



Tasmania
Explore the possibilities

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INTRODUCTION

This submission responds to the Commonwealth Grants Commission (Commission) request for State comments on the Commission Paper CGC 2019-02 *Significant Changes since the Draft Report*.

The paper advises the States that methods not addressed in the paper can be taken as remaining as described in the Commission's Draft Report on GST Revenue Sharing Relativities released in August 2019. The Commission notes that States should be aware that the Commission intends, at a late stage in the review, to re-examine all assessments, including all discounts, to ensure they pass a reality test and are internally consistent.

Tasmania accepts that a final examination is appropriate. However, it would be concerning if this resulted in significant changes in GST relativities, on which States would not have had an opportunity to comment.

SUBSTANTIVE METHOD CHANGE

Other expenses - disaster recovery expenses

The Commission has decided to:

- Retain local government expenses in the assessment as States fund most of these expenses and they represent an unavoidable cost for States.
- Assess the contribution from local government towards natural disaster recovery and deduct it from total expenses, so that the assessment only recognises State out of pocket costs. The assessed contribution will be calculated each year by multiplying the national average rate of contributions by each State's gross local government expenses.

Tasmania was comfortable with the Commission's approach in the Draft Report to exclude local government expenses relating to State natural disaster recovery expenses. Tasmania agrees with the Commission's argument that local government funded expenses are not within the scope of the Commission's equalisation task.

However, the Commission has subsequently discovered, through State data requests, that all States financially support local governments to pay for natural disaster recovery, although the amounts may vary due to differences in State policy, the number and severity of disasters, and the financial capacity of local governments.

In this case local government expenditure funded by State Governments should be included in the assessment. Tasmania agrees with the Commission that State funding paid to local government for disaster recovery is subject to State policy choices about the level of funding. Therefore, it is appropriate that it be differentially assessed rather than assessed actual per capita as with State disaster recovery expenses.

The Commission's proposal to assess State funded local government disaster recovery expenses by multiplying the national average rate of contributions by each State's gross local government expenditure is a reasonable approach and consistent with its other assessments in determining what States do and applying a policy neutral measure.

MINOR METHOD CHANGES

Mining revenue

The Commission has decided not to move Commonwealth grants in lieu of royalties from the Mining revenue assessment to the Commonwealth payments assessment as proposed in the Draft Report.

Tasmania agrees that the proposal in the Draft Report was presentational and did not affect relativities.

Welfare

The Commission has decided to:

- Assess other welfare expenses component equal per capita (EPC) instead of using a low SES measure because it considers the available evidence does not support the conceptual case that most service users are from low SES backgrounds. Differences in wage and regional costs will continue to be recognised.
- Include a cross-border allowance in the other welfare component to recognise the net use by New South Wales residents of ACT services; however, the allowance will be included with the Health category that already includes a cross-border allowance for community health services.
- Recognise service delivery scale and regional costs in the child protection and family services assessment.

Assessment of other welfare services EPC

The Commission's other welfare services component of its Welfare Assessment includes:

- Homeless persons assistance
- Women's shelters
- Care of refugees
- Prisoners aid
- Indigenous welfare services
- Information, advice and referral services

The Commission noted that homelessness services expenditure accounts for the majority of other welfare services. The following analysis therefore focusses on homelessness services.

In the Draft Report¹, the Commission noted that:

¹ Commonwealth Grants Commission Report on GST Revenue Sharing Relativities 2020 Review Draft Report, paragraphs 61 and 118, Attachment 13 Welfare)

“spending by each State on other welfare services is affected by the size of its population and the presence of those population groups that use services more intensively, namely socio-economically disadvantaged people.”

The Commission further stated that:

“it accepts the case that homelessness is due to a number of factors. However, given that total homelessness expenses are relatively small (less than \$1 billion) and data on the characteristics of people using other welfare services, including homelessness services are limited, low SES (combined with wage and regional cost differences) is a reasonable broad measure of disabilities across the whole other welfare component.”

The Commission therefore concluded that it should:

“retain low SES as a measure of disability for other welfare expenses, including homelessness.”

Tasmania is concerned that the Commission has changed its view and has decided to assess other welfare expenses EPC instead of retaining the current use of a low socio-economic status (SES) measure. The Commission argues that the available evidence does not support the conceptual case that most service users are from low SES backgrounds.

Tasmania considers that the rationale for the Commission’s conclusion that there is no conceptual case that most service users are from low SES backgrounds is flawed.

Most persons of low SES will require other welfare services. However, it is accepted that not all persons who require other welfare services are from low SES backgrounds. For example, domestic violence victims can be from any SES background, and persons seeking homelessness assistance may be suffering from mental illness or substance abuse irrespective of their SES background. However, once a person becomes homeless, or a victim of domestic violence, it is likely to affect their SES.

Clients who come from a higher SES background and who require other welfare services are likely to transition to low SES because they are more likely to become unemployed, rely on Government benefits, not own a car, and not have access to the internet. Therefore, most clients will be of low SES by the time they require intervention and specialist services, irrespective of their background, and this is what is observed.

For example, Table I shows ABS Census data on the characteristics of homeless persons. The data show that homeless persons predominately have low incomes, are unemployed or not in the labour force.

Table 1. Income and employment status of homeless persons

	All homeless persons 15 years and over (a)	Per cent
Total personal income (weekly)		
<i>Under \$400</i>	<i>44 204</i>	<i>45.5</i>
<i>\$400-649</i>	<i>17 074</i>	<i>17.6</i>
<i>\$650- \$799</i>	<i>5 704</i>	<i>5.9</i>
<i>\$800 and over</i>	<i>12 592</i>	<i>13.0</i>
<i>Not Stated</i>	<i>17 467</i>	<i>18.0</i>
Total	97 051	100.0
Employment status		
<i>Employed</i>	<i>28 657</i>	<i>29.5</i>
<i>Not employed/not in labour force</i>	<i>68 394</i>	<i>70.5</i>
Total	97 051	100.0

Source: ABS 2016 Census of Population and Housing: Estimating homelessness, Data Cube Table 1.10, ABS cat. 2049.0

(a) The ABS advises that cells in this table have been randomly adjusted to avoid the release of confidential data. As a result cells may not add to the totals.

In Table 2, the data show the main source of income of specialist homelessness service clients in each State. That Table shows that the main source of income is a pension or other Commonwealth benefit.

Tasmanian homelessness service clients are over-represented as receiving a pension or benefit compared to other jurisdictions and the national average. In Tasmania, 87.3 per cent of homelessness service clients received pensions or benefits compared to 78.5 per cent of clients nationally.

This demonstrates that homeless service clients have low incomes and that, in Tasmania, they have the lowest incomes compared to other jurisdictions.

Table 2. Main Source of Income – per cent of Specialist Homelessness Service Clients aged 15+ on Pensions and Benefits - 2017-18

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
Pensions and Benefits	77.8	76.1	84.1	81.6	79.6	87.3	69.0	82.5	78.5
Other (including no income)	22.3	24.1	15.9	18.4	20.3	12.7	31.1	17.2	21.5

Source: Specialist Homelessness Services national data collection, Australian Institute of Health and Welfare
<https://www.aihw.gov.au/reports/homelessness-services/specialist-homelessness-services-2017-18/data>

Table 3 shows the rate per 10 000 of the estimated resident population that seek access to State homelessness services.

Table 3. Specialist Homelessness Service per 10 000 - 2017-18

	NSW	Vic ^(a)	Qld	WA	SA	Tas	ACT	NT	Aust
Males	78.2	134.3	72.9	68.7	91.1	115.4	840	261.4	92.7
Females	103.8	234.3	93.7	115.5	136.4	134.2	112.1	499.8	141.7
All clients	91.1	184.8	83.4	92.0	114.0	124.9	98.1	377.3	117.4

^(a)There appears to be an issue with the data for Victoria as the rate of females seeking homelessness services is significantly greater than any other State other than the NT.

Source: Specialist Homelessness Services national data collection, Australian Institute of Health and Welfare

<https://www.aihw.gov.au/reports/homelessness-services/specialist-homelessness-services-2017-18/data>

Table 4 compares rates of access to homelessness services and the proportion of the population in the bottom quartile of the ABS experimental Index of Household Advantage (IHAD) for each State. IHAD has been used as the Commission considers it the most appropriate measure, because it measures disadvantage at a household rather than an area level. Victoria has been excluded from Table 4 because of the data issues noted earlier.

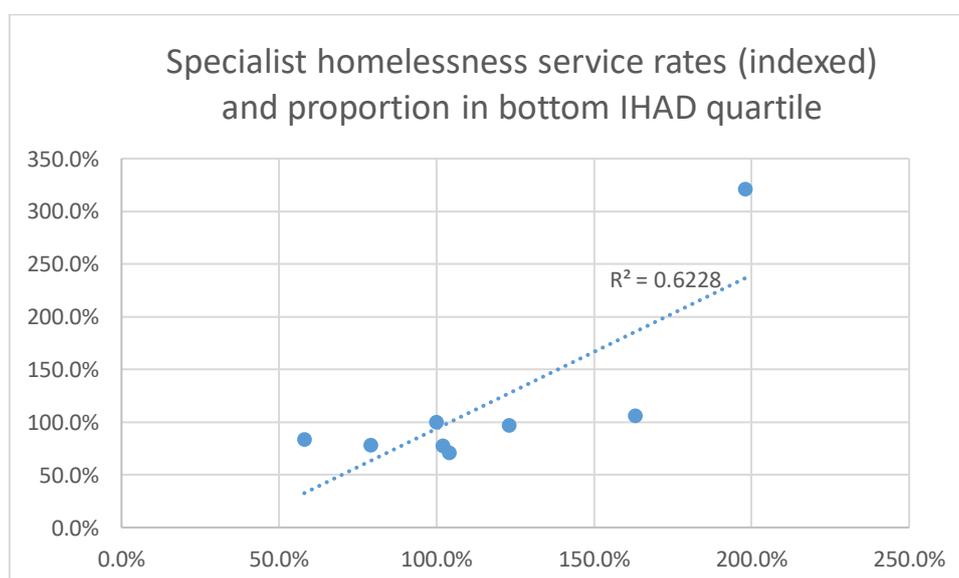
Table 4. Specialist Homelessness services rate and bottom IHAD quartile

	NSW	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%
Specialist homelessness service rate per 10 000 indexed	78	71	78	97	106	84	321	100
Proportion of population in bottom IHAD	102	104	79	123	163	58	198	100

Source: Specialist Homelessness Services national data collection, Australian Institute of Health and Welfare. Commonwealth Grants Commission draft report Table 13, attachment 13,

Chart 1 plots rates of access to homelessness services and IHAD and shows that there is a relatively strong relationship between the two. That is, rates of access to homelessness services increase with social disadvantage.

Chart 1



Tasmania therefore argues that low SES is a key driver of homelessness services. Homelessness Australia cites in its fact sheet²:

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

Not everyone who approaches specialist homelessness services is homeless: over half of people are at risk of homelessness and are looking for assistance to retain their housing or to get general help (such as material aid or brokerage). 47% of people seeking assistance from specialist homelessness services did so because of financial issues

Given that homelessness services are the major component of other welfare, Tasmania strongly contends that a low SES factor should continue to be applied to this assessment.

Cross-border and Service Delivery Scale

Tasmania has no concerns with the inclusion of a cross-border allowance to recognise the net use by New South Wales residents of ACT services, and the inclusion of the service delivery scale and regional costs disability factor in the child protection and family services assessment.

Electricity and water subsidies

The Commission has decided to:

- Broaden the definition of small communities for the water subsidies component to include communities of less than 3 000 people (instead of communities of less than 1 000 people), to capture more of the communities that receive water subsidies.
- Remove the discount for the regional cost weight for the small community water subsidies component to be consistent with other categories where regional cost weights have been derived using category data, and because the regional cost weight has been calculated using conservative assumptions.
- Apply wage costs to the small community water subsidies component and the remote community electricity subsidies component, as States with higher wage costs would be expected to have higher subsidies.

Tasmania notes that the Commission considers that changes to electricity and water subsidies assessments are non-substantive. However, without access to the population data used by the Commission it is difficult to reach a view as to whether the Commission has made the right trade-off between increasing the communities population size threshold, and in doing so, capturing too many other communities that are not subsidised.

Tasmania is not opposed to the removal of the 50 per cent discount on the regional cost weight in order to be consistent with the Commission's approach taken with other categories where regional costs have been derived from category specific data.

² Homelessness Australia <https://www.homelessnessaustralia.org.au/fact-sheets>

It is noted that the Commission has decided to apply a wages cost disability to the provision of water and electricity subsidies on the assumption that, if a State has higher wages, the cost of providing water and electricity to small and remote communities is also higher, and it will therefore require a higher subsidy.

Tasmania contends that States with higher wage costs will see that reflected in higher water and electricity costs for all customers. That is, it will be included in the cost for both remote and small communities, and urban and major city customers. Therefore, the impact of higher wage costs would not be reflected in the cost of the subsidies as the subsidy is generally the difference in the cost of providing electricity and water to remote and small communities and the cost to other customers.

Investment

The Commission has decided to:

- No longer apply capital cost factors when there is a negative assessed investment.
- Apply Rawlinsons measure of differences in regional costs alone to interstate cost differences for most assessment categories instead of a blend of Rawlinsons capital city and regional construction cost indices and the Commission's regional and wages cost factors. This is because category specific recurrent regional cost gradients are to be used in the 2020 Review and this obviates the need to include a general recurrent regional cost gradient in the capital cost disability factor.

Tasmania is not opposed to the proposed changes to the Investment assessment.

Stamp duty on conveyances

The Commission has decided to:

- Remove the adjustment for unit trust schemes as legislative changes have reduced State differences in the application of conveyance duty to the issue and redemption of units in private trusts.
- Apply a land rich adjustment of 10 per cent to all States for the application of duty on land rich transactions.

It is noted that Queensland imposes conveyance duty on the transfer of units in a private trust, while other States impose landholder land rich provisions. Tasmania agrees with the Commission's conclusion that differences in State application of the duty are not materially different enough to warrant the continued use of the adjustment.

Tasmania also supports the application of a 10 per cent adjustment for land rich transactions as five of the seven States that apply duty on land rich transactions apply it at 10 per cent of the general rate.

Land tax

The Commission has decided to:

- Increase the adjustment for the ACT's policy difference of not applying aggregation from 2 per cent to 10 per cent based on a comparison of NSW and QLD shares of land holdings data and their shares of ABS adjusted land values.
- Increase the adjustment for NT policy difference because it does not levy land tax from 0.6 per cent to 0.8 per cent.

Tasmania does not oppose the Commission's decision to increase the ACT and NT adjustments for land tax to reflect information that is more recent.