



AUSTRALIAN CAPITAL TERRITORY

**SUBMISSION TO THE
COMMONWEALTH GRANTS COMMISSION'S
COMMISSION POSITION PAPER 2008/11:
*Miscellaneous Revenue***

January 2009



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 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 light, a lack of objection does not imply support where such support has not been previously stated.

Category Structure

The ACT notes that the category structure reflects the correct and valid application of the 2010 Terms of Reference, namely the elimination of assessments which are found to be unreliable or immaterial. The top down approach used to determine whether a robust conceptual case existed for the continuation of a number of assessments has correctly identified a number of unreliable/immaterial assessments. The emphasis has then been placed on those proponent States to substantiate their case, and for those components currently included in the Miscellaneous Revenues category, the ACT believes that such cases have not had strong reasoning or been supported by valid data.

Whilst the proportion of State revenue captured within this Equal Per Capita (EPC) assessment is high (around 32%) this in no way provides a reason in itself to apply a differential assessment. The effectiveness of Horizontal Fiscal Equalisation (HFE) is not reliant on a total differential assessment where such an assessment is unwarranted. As such, the ACT sees no conceptual reason why all State revenues would require a differential assessment in order to achieve HFE. In fact, where the direction of a statistical relationship is unclear, undertaking a differential assessment potentially reduces HFE.

Gambling Revenue

The ACT rejects Queensland's proposal to use geographical remoteness as the broad indicator for a State's capacity to raise gambling tax revenue. The Commission has correctly recognised that the profitability of Electronic Gaming Machines (EGMs) can not be used as a proxy to measure overall revenue raising capacity. No evidence has been forthcoming in Qld's submission or their Analytical Report that demonstrates a positive relationship between EGM use and other forms of gambling. In fact, the claim regarding EGM exposure and gambling prevalence is directly refuted by Max Abbott¹ (head of the New Zealand Gambling Research Centre) who in a review of Australian EGM densities argued that once those States with non-standard policies were removed (i.e. WA and Tas) "...within this group [i.e. the remaining States] increased EGM exposure does not appear to be associated with higher prevalence".

¹ <http://www.nceta.flinders.edu.au/events/documents/AbbottInPress.pdf>

It is likely the disjunct between the findings in Qld's Report and the findings in academic literature is due to the significant selection bias, which was left uncontrolled, in their Report. From the findings in their report, Qld subjectively assumed that venues with a large number of EGMs generate higher returns per EGM, and that there is likely to be a higher number of EGMs per capita in urban areas. Stretching these assumptions led Qld to the conclusion that venues in remote locations house lower numbers of EGMs, which, in turn, generate a lower return per EGM. Therefore, States with more remote SARIA rankings (at the aggregate level) have a lower capacity to raise gambling revenue.

This analysis fails to control for the impact of the large numbers of domestic and international tourists that visit Qld's highly accessible LGAs such as the Gold Coast, Cairns and the Sunshine Coast. Where large numbers of tourists congregate, it is natural to expect more entertainment facilities to be present. Accordingly, it is not surprising to see that the higher density of EGMs on the Gold Coast generate higher revenues than areas that do not experience a similar volume of tourists. However, this is a Qld-specific bias (possibly also affecting the NT, which has high tourist numbers relative to permanent population), which is not prevalent in jurisdictions with lower tourist numbers. The ACT would argue that jurisdictions with a high volume of domestic and international tourists have a greater capacity to raise gambling tax revenue.

In fact, the ACT has previously presented a number of studies and arguments demonstrating that State gambling tax revenues, in total, are due to a number of other factors of equal or greater importance than the geographical remoteness of a population. These include:

- the higher concentration of EGMs in lower SES areas;
- the Socio-Demographic Composition of the population; and
- access to international gamblers.

The SA proposal to assess gambling revenue Actual Per Capita (APC) is not supported. Conceptually a category using an APC assessment methodology should only be undertaken where States have uniform policies. State gambling policy is not uniform. States have vast differences in policies dictating accessibility to gaming, the tax mix on different forms of gaming and State specific cross-border and international arrangements such as legislation governing online gaming. These differences make gambling revenue unsuited to an APC assessment.

In the absence of a valid broad indicator of revenue raising capacity the ACT supports the Commission's decision to assess gambling tax revenue Equal Per Capita (EPC).

Contributions by Trading Enterprises

The ACT will provide further comment on the treatment of contributions by trading enterprises once the Capital assessment is finalised.

Other User Charges

The SA proposal to assess other user charges is not supported. The capacity of a State to raise user charges is influenced by a number of factors, not merely the gross disposable income of residents. For example, the ability to raise parking fees and fines is linked to the demand for parking which in turn is determined by a number of policy and non-policy factors, such as the overall size and population of the urban area, access to public transport, etc. Given the lack of a reliable broad indicator which is free from policy influence, the ACT supports the Commission's proposal to assess this category EPC.

Net Interest and Dividend Income

The ACT will provide further comment on the treatment of net interest and dividend income once the Capital assessment is finalised.