



Australian Government

Commonwealth Grants Commission

2010 REVIEW

MISCELLANEOUS REVENUE

**COMMISSION POSITION PAPER
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BACKGROUND

- 1 In 2005, the Heads of Treasury undertook a review of horizontal fiscal equalisation. A conclusion of that review was that Commission processes could be simplified. The 2010 Review terms of reference ask the Commission to simplify its assessments, provided to do so is consistent with the principle of equalisation.
- 2 We consider that simplification and equalisation can both be achieved and that simplification will improve the reliability and robustness of the processes and the acceptability of the outcomes. Both objectives can best be achieved through a rigorous application of the assessment guidelines. These guidelines require the 2010 Review assessment methods to:
 - establish a conceptual case for the assessment;
 - support the conceptual case with evidence, which is both comparable and reliable;
 - develop a reliable assessment method; and
 - demonstrate such an assessment would be material¹.
- 3 Our intention is to develop those methods jointly with States. For this reason we have chosen an iterative process. This approach provides States with opportunities to contribute to the development of the final assessments.
- 4 The first iteration of the Miscellaneous Revenue assessment was presented in staff discussion paper *2007/03-S Proposed Methods for Revenue Assessments* with additional discussion provided in staff discussion paper *2007/06-S Assessing User Charges in the 2010 Review*.
- 5 This position paper sets out the Commission's preliminary decisions on the assessment. These decisions provide the basis on which the Commission seeks to take the Miscellaneous revenue assessment forward in consultation with States.
- 6 This paper reflects comments provided by the States during State visits and in State submissions received up until 15 August 2008. Comments received after this date will be considered alongside comments received from States in response to this paper.

PROPOSED ASSESSMENT

Overview

- 7 In discussion paper 2007/03-S, staff proposed a Miscellaneous revenue category comprising revenues² that would be assessed equal per capita.
- 8 The paper said revenue should be assessed equal per capita (EPC) and, as a result, be classified to this category if it was:

¹ For a category to be deemed material, the average expense or revenue is greater than \$50 per capita, or the assessment is likely to redistribute more than \$30 per capita for any State.

² These revenues also include user charges.

- a minor revenue, where differential assessments would have immaterial effects;
- collected in a minority of States and thereby reflected non-standard policy; and
- revenues for which a reliable and material assessment could not be developed. These revenues would not satisfy the criteria for making a differential assessment.

9 It has been concluded the following revenues satisfy those criteria:

- property titles user charges;
- fees and fines;
- public safety user charges (including fire and emergency services levies);
- user charges — other than those associated with functions usually performed by public trading enterprises (PTEs);
- business taxes that are to be abolished under the Inter Governmental Agreement;
- gambling revenue;
- contributions by trading enterprises; and
- net interest and dividend income.

State views

- 10 All States supported a Miscellaneous revenue category that would be assessed on an equal per capita basis and the criteria for determining which revenue should be assessed equal per capita.
- 11 All States agreed that business taxes that are to be abolished under the Inter Governmental Agreement should be assessed equal per capita and included in the Miscellaneous revenue category. Individually, they disagreed on whether some of the other revenues should be assessed EPC.

Commission view

- 12 The Commission intends to have a Miscellaneous revenue category comprising revenues that would be assessed equal per capita, and to include in the category:
- minor revenues;
 - revenues collected in a minority of States; and
 - revenues for which a reliable and material assessment cannot be developed.
- 13 Position paper *2008/23 Justice services* sets out our reasons for assessing fees and fines and property titles equal per capita. We intend to assess fees and fines, property titles user charges and business taxes that are to be abolished equal per capita and include them in the Miscellaneous revenue category.
- 14 Consideration of whether the other revenues listed in paragraph 8 should be assessed equal per capita is given in the next sections, with the equal per capita criteria applied to each in turn.

- 15 Under the Commission’s proposed approach to assessing capital, as stocks would be equalised, net interest would also be equalised so net interest earnings would be added to the miscellaneous category. This would be removed if material borrowings were identified.

APPLYING THE CRITERIA TO GAMBLING REVENUE

Proposal

- 16 In staff discussion paper 2007/03-S, staff noted the difficulty in finding a reliable measure of gambling revenue capacity in previous reviews. In the 2004 Review, the measure was Household Disposable Income discounted by 50 per cent because factors other than gamblers’ incomes influenced the level of gambling activity. Table 1 shows States’ shares of a range of indicators, including the 2004 Review measure.

Table 1 Gambling indicators, 2008 Update^(a)

Share of:	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Actual revenue	33.3	32.5	17.8	3.2	9.0	1.8	1.2	1.1	100.0
Population	33.2	24.8	19.5	9.9	7.6	2.4	1.6	1.0	100.0
Household disposable income	34.6	25.3	17.5	9.9	7.2	2.0	2.5	1.0	100.0
Assessed revenue	33.9	25.0	18.5	9.9	7.4	2.2	2.1	1.0	100.0

(a) Average of 2001-02 to 2006-07.

Source: 2008 Update, Working Papers, Volume 2.

- 17 Staff also reported on further analysis of the relationship between HDI and gambling expenses. It indicated the relationship was weaker than presumed in the 2004 Review, which suggested a discount of more than 50 per cent was required. Such a discount would mean the assessment would become immaterial (redistribute less than \$30 per capita for any State). As a reliable measure of gambling revenue was not found, the Commission proposed assessing these revenues equal per capita and including them in the Miscellaneous revenue category.

State views

- 18 Five States supported these conclusions. Queensland, South Australia and Tasmania did not. They believed a capacity measure could be found that was both reliable and material.
- 19 Queensland provided a research paper prepared by its Office of Economic and Statistical Research. The paper was based on Local Government Areas (LGA) data on the number, distribution and expenditure on electronic gaming machines (EGMs). These data were compared against a range of LGA-based socio-demographic variables from the 2001 Census. The report’s findings were:
- the relationship between income and gambling expenses was not very robust;
 - most socio-demographic factors were not significant in explaining differences in expenditure on EGMs; and

- there was a link between population density and expenditure on EGMs. The report attributed this to the proximity and ease of access to gambling facilities in areas of higher population density.

20 Queensland proposed an assessment based on States' population in two SARIA regions — highly accessible and accessible.

21 South Australia also proposed a differential assessment of gambling revenue. It proposed either actual gambling expenditures (adjusted to take account of differences in State policies on gambling) or expenditure on recreation and culture from the ABS State Accounts. Tasmania supported South Australia's proposal to use adjusted actual gambling expenditure.

Analysis

22 The Queensland proposal extrapolates research based on revenue from EGMs to suggest assessing gambling revenue capacity using the population living in two SARIA regions.

23 However, it is not clear that EGM revenue raising capacities are applicable to other forms of gambling. Assuming that people living in the other three SARIA regions have no impact on the revenue base appears extreme.

24 If adopted, the Queensland proposal would produce an outcome that is materially different from an equal per capita outcome. However, the materiality of the Queensland proposal is sensitive to its two assumptions.

25 We have tested the sensitivity of the first assumption by applying the Queensland assessment only to revenue raised from EGM activities (around 60 per cent of gambling revenue) with other gambling revenue assessed equal per capita. This change would produce an outcome that is materially different from an equal per capita outcome only for the Northern Territory.

26 We have tested the sensitivity of the second assumption by assessing a capacity for people in the other three SARIA regions. We gave them half the revenue capacity of those in highly accessible and accessible regions.³ When combined with the previous change, this would produce an assessment that is not materially different from an equal per capita outcome for any State.

27 The Commission is not convinced of the reliability of the South Australian suggestion to base differential assessments on actual expenditure on gambling, sourced from the ABS household expenditure surveys, or a broader expenditure indicator such as recreation and culture expenditure from the ABS National Accounts.

28 South Australia concedes such data would need to be adjusted to take into account Western Australia's policy of no EGMs outside of the casino. The Commission considers it would also need to allow for differences in other State's policies relating to venues that may have gaming

³ The revenue base for this option would be population for highly accessible and accessible regions and half the population in the other three SARIA regions.

machines, the maximum number they may have, the availability of ATMs and whether or not smoking is allowed. How this would be done is not clear.

- 29 The literature provides limited guidance in deciding which socio-economic and behavioural factors influence gambling expenditure. A number of recent studies have examined the characteristics of gamblers in the community, especially problem gamblers. They show a disproportionate amount of gambling expenditure is undertaken by a small proportion of problem gamblers. For example, a recent Northern Territory study⁴ estimated problem gamblers in that State made up 1.1 per cent of the population but they were responsible for an estimated 31.3 per cent of total gambling expenditure. The 2003-04 Queensland household gambling survey concluded problem gamblers had lower education status, were more likely to be Indigenous or Australian South Sea Islanders and less likely to be retirees.
- 30 In addition the link between gambling expenditure within a State and revenue raised by a State is becoming less clear. Since 2001-02, actual gambling revenue raised in the Northern Territory has increased from 88 per cent of the national average to 132 per cent of the national average in 2006-07. A possible explanation is that a greater proportion of the Territory's gambling revenue is obtained from overseas and interstate gamblers. For example, the Northern Territory based Lasseters Online is the only approved Australian online casino.⁵
- 31 Similarly, in 2006 Tasmania granted a licence for sporting exchange betting operations to commence (the licence being granted to Betfair). Australia residents as well as overseas customers are permitted to place bets on all markets offered by Betfair.

Commission view

- 32 In the absence of a reliable and material measure of revenue capacity, the Commission intends to assess gambling revenues equal per capita and include them in the Miscellaneous revenue category.

APPLYING THE CRITERIA TO CONTRIBUTIONS BY TRADING ENTERPRISES

Proposal

- 33 In the 2004 Review, the Commission assessed capacity for contributions by trading enterprises and other revenue by the equal per capita method, because interstate differences in policies had a large influence on the differences in revenues raised. There is no evidence to suggest a different assessment would be appropriate for the 2010 Review.
- 34 In discussion paper 2007/03, staff proposed including these revenues in the Miscellaneous revenue category and continuing the equal per capita assessment.

⁴ *An overview of gambling in the Northern Territory*, School for Social and Policy Research & School of Health Sciences, Charles Darwin University, October 2006.

⁵ Commonwealth legislation prevents Lasseters from accepting bets from Australian citizens.

State views

- 35 All States supported this proposal. However, some States asked the Commission not to finalise a decision until the capital assessment is completed.

Commission view

- 36 In the absence of compelling arguments or evidence of differences in revenue raising capacity, the Commission intends to assess these revenues equal per capita and include them in the Miscellaneous revenue category. It will review this decision once the capital assessment is finalised.

APPLYING THE CRITERIA TO PUBLIC SAFETY USER CHARGES

Proposal

- 37 The existing Public safety user charges category comprises:
- fire insurance and emergency services levies; and
 - other safety related user charges.
- 38 Fire insurance and emergency services levies (87 per cent of public safety user charges) include statutory contributions for fire brigades from insurance companies and local government authorities. Other safety related user charges (the remaining 13 per cent) include installation of smoke alarms, false alarm charges and fines.
- 39 In the 2004 Review, fire insurance and emergency services levies were assessed using premium revenue for fire and industrial special risk and house owners/householders insurance. Other safety related user charges were assessed equal per capita.
- 40 Staff proposed including fire insurance and emergency services levies in the Land revenue category and the other safety related user charges with other user charges.

State views

- 41 New South Wales, Victoria and Western Australia supported an equal per capita assessment. Victoria said that given the wide array of measures used by States to calculate a fire insurance and emergency services levy, it did not consider it worthwhile to attempt to determine the average policy. It suggested including these levies in the Miscellaneous revenue category and assessing them equal per capita to remove state policy influences.
- 42 Queensland proposed including the levies in the Insurance tax category because they were mainly imposed on insurance premiums. It said land values were not an appropriate revenue base.
- 43 Other States did not comment on these levies.
- 44 All States accepted the proposal to include the safety related charges with other user charges.

Analysis

45 In the 2008 Update, the Public safety user charge assessment was material because it redistributed more than \$30 per capita for the Northern Territory (see Table 2).

Table 2 Financial impact of the Public safety user charges assessment, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Public safety user charges	-15.36	-2.43	14.14	11.92	2.43	22.43	27.39	45.69	5.63

Source: 2008 Update

46 The levies, which are used by State governments to (partially) fund fire fighting services, are imposed in a variety of ways.

- New South Wales and Victoria impose a levy on insurance companies who recoup payment through policy holders. In both States, councils and the State government also contribute to the cost of fire fighting services.
- Queensland imposes an urban fire levy through municipal rates. Levies are not payable for areas serviced solely by rural fire brigades.
- Western Australia imposes a multi-tiered property levy on all property owners, except the Commonwealth which contributes through a separate arrangement.
- South Australia imposes its levy on all property, including motor vehicles, but not Commonwealth land — the Commonwealth gives assistance through other arrangements.
- Tasmania imposes a fire service contribution through municipal rates, a fire insurance levy collected through insurance companies and a motor vehicle levy.
- The ACT imposes a levy on all rateable property.
- The Northern Territory does not impose any levies for fire services funding.

47 Given the different bases that States use to impose the levy and the differences in the coverage of the levies between States, the most likely measure is some form of unimproved property values. However, staff have not been able to find a reliable measure of unimproved property values.

Commission view

48 In the absence of a reliable and material measure of revenue capacity, the Commission intends to assess fire insurance and emergency services levies equal per capita and include them in the Miscellaneous revenue category.

APPLYING THE CRITERIA TO OTHER USER CHARGES

Proposal

- 49 In discussion paper 2007/06-S, staff said user charges could be disaggregated into two groups:
- those associated with functions performed by PTEs in most States; and
 - other user charges.
- 50 The first group comprised fees for welfare housing, transport, electricity and gas, and water and sanitation services. Staff proposed offsetting them against expenses.
- 51 The remaining user charges were grouped together as ‘other user charges’. Table 3 shows that only National parks and wildlife services and General public services were assessed differentially in the 2008 Update. Individually and collectively, they fail the \$30 per capita redistribution materiality threshold.
- 52 Staff compared States’ shares of user charges and their shares of Gross State Product or Household Disposable Income and found no significant relationship between them. As a reliable measure of capacity was not found, staff proposed assessing other user charges EPC.

State views

- 53 Five States supported the equal per capita proposal. South Australia, Tasmania and the Northern Territory did not.
- 54 South Australia said States whose citizens had lower average incomes did not have the same capacity to raise revenue from user charges. It noted that the Commission staff analysis found no significant relationship between user charges and Gross State Product or Household Disposable Income. However, it pointed out that the analysis dealt with all user charges and not just those related to general economic activity or income. It also expressed concerns about the interstate comparability of States’ user charges data.
- 55 Tasmania supported the use of Household Disposable Income because it was a reasonable broad indicator which ultimately reflects the capacity of individuals within a State to pay user charges. It also suggested an alternative of weighting Commonwealth pension concession card and health care card holders, because States regularly provide discounts to these groups.
- 56 The Northern Territory suggested identifying the primary driver of material user charges and weighting them by their share of revenue to derive a single factor. In its view, the main user charges are housing, private patient fees, law and order fees and fines, public safety and general public services. Immaterial user charges or user charges that do not have a sound conceptual tax base could be grouped together and assessed equal per capita. It said this would be consistent with both the simplicity and equalisation objectives.

Table 3 Financial impact of other user charges, 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Fees and fines	-0.30	-0.78	0.80	0.24	1.06	0.57	0.70	0.09	0.29
Property titles	3.37	4.29	-10.20	-6.05	4.52	0.12	3.13	7.90	2.64
Preschools education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gov't primary school education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gov't secondary school education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
VET	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inpatient services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-inpatient and comm health	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Population and prev health	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Family and child services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Aged and disabled services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Homeless and general welfare	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Police	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Corrective services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Culture and recreation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
National parks & wildlife services	0.27	-0.09	0.03	-0.44	0.24	-0.47	-0.77	-2.08	0.11
Roads	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Primary industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mining, fuel and energy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Manufacturing and other industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
General public services	-0.68	0.03	4.21	-12.28	5.64	11.11	2.55	-11.51	1.57
Total	2.66	3.45	-5.15	-18.54	11.47	11.34	5.62	-5.60	1.69

Source: 2008 Update, Working Papers, Volume 4.

Analysis

57 Currently, other user charges are not material. States proposing a differential assessment have not established that a reliable and material measure can be found:

- States have not provided evidence that the level of user charges is related to Gross State Product or Household Disposable Income;
- while Tasmania has said States provide discounts for certain concession card holders, it has not demonstrated that a weighted population assessment would be material.

Commission view

58 On materiality grounds, the Commission intends to assess other user charges equal per capita and include them in the Miscellaneous revenue category.

APPLYING THE CRITERIA TO NET INTEREST AND DIVIDEND INCOME

Proposal

- 59 We propose to apply the criteria to net interest and dividend income. Net interest and dividend income comprise two revenue transactions and two expense transactions.
- 60 The revenue transactions are:
- interest income (from superannuation and other investments), totalling \$5.7 billion in 2006-07; and
 - dividend income, totalling \$3.3 billion in 2006-07⁶.
- 61 The two expense transactions are:
- debt charges, totalling \$2.5 billion in 2006-07; and
 - nominal interest paid on unfunded superannuation, totalling \$2.4 billion in 2006-07.
- 62 So, in 2006-07, net interest and dividend income was \$4.1 billion.
- 63 The Commission is currently unlikely to assess a cost of borrowing adjustment for debt charges and nominal interest paid on unfunded superannuation.
- 64 If the final decision is that a cost of borrowing assessment is not assessed, the net revenue of all four transactions would be assessed equal per capita and would be classified to the Miscellaneous revenue category.

State views

- 65 States have not had the opportunity yet to comment on the proposed netting off of debt charges and nominal interest paid on unfunded superannuation from interest and dividend income.
- 66 Tasmania and the Northern Territory voiced their support for retaining a cost of borrowing assessment.
- 67 In response to a possible assessment of cost of borrowing, the ACT said that debt charges and interest income should be netted off and assessed EPC, given the high degree of policy influence and the opportunity presented by separate needs assessments for grant design inefficiencies. The ACT added that, if a gross debt charges assessment is undertaken, the ACT would support a cost of borrowing assessment for smaller jurisdictions. It noted that it provided evidence supporting this claim in the 2004 Review.

Analysis

- 68 The treatment of net interest earnings is being discussed as part of the capital assessment.

⁶ Under the 2004 Review methodology, such income was included in the Contributions from trading enterprises assessment.

Commission view

69 Pending completion of the capital assessment, the Commission intends to assess net interest and dividend income equal per capita and include them in the Miscellaneous revenue category.

PRELIMINARY ASSESSMENT

Commission proposal

70 Table 4 shows the size of the proposed Miscellaneous revenue category and its composition. In 2006-07, the \$25.2 billion revenue in this category was 36.1 per cent of total State revenue (own source and user charges) of \$69.8 billion. Table 5 sets out the assessment for 2006-07.

Table 4 Miscellaneous revenue, 2006-07

	2008 Update	
	\$b	\$pc
Gambling revenue	4.776	228.95
Financial transaction taxes ^(a)	1.178	56.46
Stamp duty on shares and marketable securities ^(a)	0.130	6.24
Other revenue	1.331	63.83
Contributions by trading enterprises	2.726	130.69
Property titles	0.722	34.61
Fees and fines	1 254	60.12
Public safety user charges	1.558	74.71
Other user charges	7.438	356.58
Net interest earnings and dividend income	4 117	197.37
2010 Review category	25 231	1 209.59

(a) These are business taxes to be abolished under the Intergovernmental Agreement.
Source: Data supplied by States to the Commission.

CONCLUSION

71 The Commission intends to assess the nominated revenues and user charges equal per capita and include them in the Miscellaneous revenue category.

Table 5 Miscellaneous revenue, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
A. Assessed revenue base (persons)	6 855 811	5 167 516	4 135 619	2 082 041	1 576 644	491 648	336 691	212 802	20 858 772
B. Actual revenue (\$b)	6.990	4.900	6.625	2.110	1.675	0.42	0.302	0.004	23.024
C. Average tax per capita (\$pc) [$C_{Aust} = B_{Aust} / A_{Aust}$]									1 103.80
D. Assessed revenue (\$b) [$D = C_{Aust} * A$]	7.567	5.704	4.565	2.298	1.740	0.543	0.372	0.235	23.024
E. Assessed revenue per capita (\$pc) [$E = D / A$]	1 103.80	1 103.80	1 103.80	1 103.80	1 103.80	1 103.80	1 103.80	1 103.80	1 103.80
F. Category factor [$F = E / E_{Aust}$]	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

Source: Actual revenue data provided by State Treasuries, classified to the 2010 Review category structure by the Commission.