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Review of State Rating Concessions

Final Report

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Postal: PO Box 3192, Rundle Mall South Australia 5000
Telephone (+61-8) 8303 5555 Facsimile (+61-8) 8303 4916 Email: saces@adelaide.edu.au
Physical: 3rd Floor, Nexus Tower, 10 Pulteney Street, Adelaide

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This report was prepared by the following SACES researchers:

Anthony Kosturjak, Senior Research Economist
Assoc Professor Owen Covick, Senior Research Associate
Jim Hancock, Deputy Director
Suraya Abdul Halim, Research Economist

1. Introduction

State concessions for council rates were first introduced in 1973. The maximum concession paid has been increased three times since the concessions were introduced and has never been subject to indexation. The maximum concession paid for rates is currently $190 in any financial year. This maximum has not been increased since 2002 and consequently has failed to keep pace with inflation, eroding the true value of the concession paid to recipients.

The Local Government Association of South Australia (LGA) has engaged the SA Centre for Economic Studies to undertake a review of the Rates and Land Tax Remissions scheme and other available rate relief options in order to assess their impact on ratepayers on low and fixed incomes. This report presents our findings on this matter.

The report is structured as follows. Section 2 summarises the range of current rates and concessions legislation including the Land Tax Remissions Scheme. Section 3 summarises the findings and recommendations of relevant official inquiries into taxation issues, including an incomplete 2006 State Government Select Committee inquiry into the collection of property taxes by State and Local Government, the Henry and Harmer reviews and the work of the Sustainable Budget Commission. Section 4 presents a trend mapping to show how the maximum concession has changed in real terms since it was last increased in 2002 and is projected to change over the period to 2015 assuming no change to the current level of the concession. Trends in incomes, living costs and other concessions are also considered in this section. Section 5 presents an analysis of the targeting of council rate concessions against a range of measures of income using data from the *Household, Income and Labour Dynamics in Australia (HILDA) Survey*. Section 6 summarises the views and perspectives of several community social welfare groups who were consulted as part of the project. The final section provides conclusions and recommendations based on the earlier work undertaken.

2. Rate Concessions in South Australia

2.1 State government concessions

The *Rates and Land Tax Remission Act 1986* allows for the South Australian Government to introduce remission of rates for designated ratepayers. The Act provides that the authority collecting the rates shall make the remission to the ratepayer, with the Treasurer reimbursing the authority (e.g. a council) for remissions made. "Rates" in this context include local government rates, rates payable to irrigation authorities and land tax.

Council rates

The South Australian Government offer remissions on council rates to individuals who:

- own or part own their home and occupy it as their principal place of residence on the date the council rates accounts is payable for the relevant financial year;
- are responsible for paying the rates on that property; and
- meet the State Government's definitions of low and/or fixed income as defined below.

The amount of the remission in any financial year is equal to 60 per cent of the amount of council rates.

A maximum remission of up to $190 is available if the owner-ratepayer is:

- a holder of a Pensioner Concession Card or Department of Veterans Affairs (DVA) Gold Card (TPI, EDA or War Widow);
- the recipient of an eligible payment from Centrelink or DVA, eligible payments being Newstart allowance, Sickness allowance, Widow allowance, Youth allowance, Partner allowance, Parenting Payment Partnered, Bereavement allowance, Special benefit, Exceptional Circumstances payments, Community Development Employment Project (CDEP), New Enterprise Incentive Scheme (NIES), ABSTUDY and Austudy;
- had a gross income in the previous financial year not exceeding 'Low Income Limits' as defined by the Department of Families and Communities (DFC, 2011) which, for the period 1st July 2011 to 19th September 2011, are:
  - SINGLE: $13,959.40 per annum ($539.60 per fortnight);
  - SINGLE with dependent children: $14,970.80 per annum ($575.80 per fortnight); and
  - PARTNERED: $25,516.40 per annum ($981.40 per fortnight).

A maximum concession of up to $100 is available if the owner-ratepayer is a holder of a South Australian State Seniors Card. For married couples or domestic partnerships, if only one person is a holder of a State Seniors Card, the other partner must not work for more than 20 hours in paid employment.[1]

A person eligible for one of these two payments who pays rates in respect of an effluent disposal scheme may be eligible to receive an additional concession of up to $100. Hence, the maximum concession paid for rates is currently at $290 a year.

[1] Those eligible for a State Seniors Card must meet the following 3 criteria; 1) Aged 60 years and older ; 2) Permanent South Australian resident ; 3) Not working more than 20 hours per week in paid employment. Part time and casual employees may average their hours over a 12 month period.

Individuals must meet these requirements on or between the issue date, and up to 14 days after the due date of the council rates account.

The Department of Treasury and Finance provided estimates of the number of recipients and total State government expenditure for various concessions – see Table 2.1. It is important to note that there are some limitations associated with the data. In particular, the estimated number of recipients refers to recipients at a single point in time (i.e. when the report was run) whereas expenditure refers to expenditure for the year as a whole. The actual number of recipients during the year may consequently be significantly higher than indicated in the table, while it is not possible to derive accurate estimates of expenditure per recipient. This is particularly evident for the energy concession with the data implying an average energy concession per recipient of $174 in 2010/11, which is in excess of the maximum energy concession of $150 that was available during the year. The average rates concession per recipient ($183) was below the maximum rates concession, which suggests that the rates data more closely resembles actual uptake of the scheme for the year as a whole.

Looking at the administrative data, total expenditure on the rates concession amounted to $33 million in 2010/11. In comparison, the total cost of the energy concession was marginally higher at $34 million. It is estimated that approximately 180,400 households were in receipt of the rates concession at the time the data was compiled compared to 195,000 households in respect of the energy concession (the actual number of energy concession recipients is probably significantly higher).

Table 2.2 shows the estimated number of recipients and total expenditure on the scheme over the period from 2005/06 to 2010/11 and provides a breakdown of rates concession recipients by pensioner and self-funded retiree group (i.e. $190 and $100 concession respectively). There are some significant fluctuations from year to year as demonstrated by a significant rise in the number of participants in 2010/11 (11 per cent), which again emphasises that the data should be treated with caution.

The vast majority of rates concession recipients in 2010/11 were pensioners (88 per cent). The share of pensioner recipients has fallen slightly since 2005/06 (89 per cent).

Table 2.1
Estimated Concession Recipient Numbers and Expenditure, 2010/11

Concession	Estimated number of recipients[a]	Expenditure ($m) – estimated result
Council rates	180,400	33
Emergency Services Levy	160,000	7
Energy	195,000	34
Water for owner occupiers and sewerage [b]	150,000	27
Water for tenants	32,500	2

Note: [a] Numbers are an estimate of average full year equivalent concession recipient numbers. The majority of concessions are paid on a quarterly basis - recipient numbers will vary from quarter to quarter based on eligibility at that point in time and the number of concession applications received.
[b] Information on water (for owner occupiers) and sewerage concessions are recorded together. Recipient numbers will vary between water and sewerage concessions (e.g. not all water concession recipients are connected to the sewerage system).

Source: Department for Families and Communities and Department of Treasury and Finance, unpublished data.

Table 2.2
Estimated Council Rates Concession Recipient Numbers and Expenditure[a, b], 2005/06 to 2010/11

Concession	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Number of concession recipients						
- pensioners	149,800	149,300	148,900	146,100	149,100	158,400
- self-funded retirees	18,200	20,100	20,600	20,400	19,800	22,000
Total	168,000	169,400	169,500	166,500	168,900	180,400
Expenditure ($ million)						
- pensioners	26	28	30	27	29	31
- self-funded retirees	2	2	2	2	2	2
Total	28	30	32	29	32	33

Note: [a] These are estimated figures as the Department for Families and Communities database has reporting limitations with data collated from a number of sources and part home owners only receiving a part concession equivalent to their percentage ownership of the property but are recorded as '1' concession recipient.
[b] The number of customers is determined at a point in time while expenditure is the actual amount for the full financial year. This means it is not possible to achieve an accurate average expenditure per customer using this information.
Source: Department for Families and Communities and Department of Treasury and Finance, unpublished data.

Over the 5 years to 2010/11, the total number of rates concession recipients grew at an annual average rate of 1.4 per cent per annum. The number of self-funded retirees has grown at a faster pace that the number of pensioner concession recipients (3.9 per cent per annum compared to 1.1 per cent per annum). Unfortunately it is not possible to calculate an accurate annual growth rate for the expenditure data due to the highly rounded nature of the expenditure data.

Postponement of rates

The Local Government Act 1999 provides an explicit mechanism for seniors to postpone a proportion of their rates. Under the Act, a person may apply for a postponement of the payment of the prescribed proportion of rates for the current or a future financial year if:

(a) The person is a prescribed ratepayer, or is the spouse or domestic partner of a prescribed ratepayer; and

(b) The rates are payable on land that is the principal place of residence of the prescribed ratepayer; and

(c) The land is owned by –

(i) the prescribed ratepayer; or

(ii) the prescribed ratepayer and his or her spouse or domestic partner, (and no other person has an interest (as owner) in the land).

A prescribed ratepayer is a person who holds a current State Seniors Card.[2] The prescribed proportion of rates, as specified in the Local Government (General) Regulations 1999, is any amount in excess of $500. Importantly, State Government rates concessions can be applied against this minimum amount. A ratepayer who is eligible for the maximum concession of $190 and chooses to postpone payment of the full amount in excess of $500 would consequently face a maximum rates fee of $310 for the financial year.

[2] Includes a person who has the qualifications to hold the card and has applied for the card, but has not yet been issued with the card.

That proportion of rates which is postponed is payable when title to the relevant land is transferred to another person (e.g. sold), or there is a failure to comply with a condition that is imposed by council on the postponement of rates.

Interest is payable on that proportion of rates which is postponed at a prescribed rate per month. The prescribed interest rate is calculated as the cash advance debenture rate for the financial year plus 1 per cent divided by 12. Given a cash advance debenture rate of 6.25 per cent for the 2011/12 financial year, the current monthly interest rate is 0.60417 per cent.

Importantly, councils do not have the ability to refuse an application for postponement of rates with one exception in respect of the condition that the applicant must have at least 50 per cent equity in the property, had a mortgage in place before the scheme was introduced, and the property in question is their principal place of residence. If the applicant fails to meet these conditions, the Council has the option to reject their application.

Land tax remission

The *Rates and Land Tax Remission Regulations 2009* allow for remission of land tax for land where the taxpayer holds a prescribed card or is in receipt of prescribed payments, and the taxpayer occupies the land as the person's principal place of residence in a prescribed capacity. However, land used as the owner's principal place of residence is exempt from land tax under the *Land Tax Act 1936*. The remission for land tax provided by the *Rates and Land Tax Remission Regulations 2009* consequently appear to be obsolete.

2.2 Local government remissions and concessions

In addition to postponement of rates for seniors, the *Local Government Act 1999* provides flexibility for local government to provide remissions and concessions to ratepayers more broadly. For instance, on the application of a ratepayer, a council may postpone payment of rates or remit rates, in whole or in part, where it is satisfied that payment of rates would cause "hardship" to the ratepayer. The ratepayer must pay interest on those amounts postponed at a rate not exceeding the cash advance debenture rate.

Section 182(4) of the *Local Government Act 1999* allows a council to "grant other or additional remissions of rates on the same basis as applies under the *Rates and Land Tax Remission Act 1986"*.[3]

In a survey conducted by Onkaparinga in 2008/09, approximately 21 per cent of the 67 councils contacted provided some form of additional consideration for pensioners and/or self-funded retirees. The types of support provided include:

- additional general rates concessions for pensioners and self-funded retirees with a State Seniors Card;
- rate capping at a lower rate for pensioners and self-funded retirees; and
- concessions for pensioners in respect of waste charges.

There was considerable variation in the value of additional concessions provided by Councils and how they were determined. For instance, in respect of additional concessions for general rates, some councils paid a flat amount on the same eligibility basis as the State concession,

[3] Local Government Act 1999 – 15.11.2010, Section 182 (4).

while one council made the payment conditional on further requirements (e.g. must not own other properties, must have owned and lived in property for 5 years etc). Other councils provided a general rate concession based on the amount of the rates or property valuation. For example, one council provided a minimum concession of $30, rising by $1 for every $10,000 increase in valuation over a $300,000 minimum valuation, while another council provided a concession to pensioners and self funded retirees where their net council rates exceed $950 after taking into account State government concession, up to a maximum concession of $250.

In addition to a cap on the maximum increase in rates, councils may adopt alternative rating structures in order to minimise the impact of valuation increases on rates. A council may include a fixed charge component to rates in order to reduce the amount of rates that is exposed to valuation changes. The fixed rates charge is subject to the limitation that revenues derived by local government from fixed charges cannot exceed 50 per cent of all revenue received from general rates revenue. Basing part of the calculation of rates on property valuation recognises that vertical equity (i.e. the idea that wealthier people generally have a greater ability to pay taxes and should pay more) is a desirable characteristic in setting taxes.

While there is considerable scope for local government to provide remissions, the ability to do so is ultimately constrained by funding limitations. A decision to increase remissions will typically require trade-offs in terms of higher rates more generally or reductions in other council services and/or activities. For instance, setting a very low rate increase cap for pensioners may require a higher rate increase cap for other ratepayers.

3. Findings from Official Inquiries

3.1 Select committee

In 2005, during the 50th Parliament, the Legislative Council appointed a Select Committee to inquire into "all matters relating to the issue of the collection of property taxes by State and Local Government" (Select Committee 2009 p. 2]. The Select Committee was then re-established with the same terms of reference in the 51st Parliament. In December 2009, in anticipation of the dissolution of Parliament, the Select Committee tabled an *Interim Report.* The 52nd Parliament has not re-established this Select Committee, which means the *Interim Report* is the only report issued by the Select Committee (to date and prospectively). The *Interim Report* summarises the processes of the Select Committee but does not present any analysis or conclusions.

SACES staff inspected the transcript of the Select Committee hearings and some of the submissions received by the Committee.

Specifically, the inquiry looked at five broad issues.

i. Concerns about the current level of property taxes and options for moderating their impact and the impact of any future increases;
ii. Concerns about the inequities in the land tax collection system, including the impact on investment and the rental market;
iii. Concerns about inequities in the current property valuation system and options to improve the efficiency and accuracy of the valuation process;
iv. Consideration of alternative taxation options to taxes based on property valuations; and
v. Concerns about the current level of council rates and options for moderating the impact.

The inquiry was largely centred on the broad issues stated above and, in particular, concerns around property taxes and valuation systems. The remaining discussions regarding council rates are focused on the level of rates and rate increases with the two main issues being:

- The governance and financial management processes in place to assure communities on the best use of the rates raised; and
- Local Governments' management of the rating system within legal constraints set by the parliament and how this impacts individuals.

The main discussion points were as follows.

- The bulk of discussions were centred on providing background information to the Select Committee on how council rates are applied, including the tools available to local government in raising revenue. A specific area of focus was the fundamental difference between how council rates and State government land taxes interact with property valuation changes. In this respect, council rates are largely determined by the expense/revenue target set by the council, with the council then adjusting the rate in the dollar to achieve this budget objective, while taking into account broad valuation changes. Councils therefore do not gain additional revenue from valuation increases as in the case of State government land taxes, which are set at a fixed rate, and therefore rise in line with increases in property valuation.

- Councils have adopted caps on the level of rate rises to ensure that the impact on any individual in a year is minimised. Limited by only one main revenue source, in order to fund a cap, rebate or remission for a group of ratepayers, councils have to increase rates of other ratepayers. This is akin to a 'cross-subsidy'.
- It was claimed that the level of rebates and remissions funded by councils had increased substantially, by 50 per cent in 2005/06 (p. 6 of Hansard). This is on top of concessions which are already provided by the State government.
- The LGA's formal position is to have state concessions indexed to the CPI to assist councils in keeping rates low and minimise rate increases to individual ratepayers. However, the 2006 budget left the pensioner and self-funded retiree concessions on council rates unchanged, decreasing the actual level of individual benefit in real terms.
- Charles Sturt Council assessed the impact of rate increases against the demographic profile of its ratepayers. Their analysis was based on mapping property valuations and general demographic statistics onto areas in their council over 5 years to 2006. The mapping suggests a significant proportion of ratepayers are pensioners and that for some "pockets within the city", 50 to 55 per cent of ratepayers are pensioners (p, 142, Hansard). Results also indicate that those most affected by rate increases are characterised as 'asset rich/cash poor' and those on fixed incomes. These are generally either pensioners or self-funded retirees.

3.2 The Henry Tax Review and the Harmer Review

The Henry Tax Review discussed concessions in the context of its examination of the Australian tax and transfer system as a whole. The word "transfer" here is used in the economists' sense as the reverse of a tax, in other words a transfer of purchasing power from a government to an individual or body in the non-government sector. Concessions are described in the Henry Tax Review as "payments that are linked to the purchase, or supply, of a particular good or service" (p. 67). Local government rates concessions stand somewhat outside this description, being payments linked to the payment of a particular tax. The Harmer Pension Review Report (2009) stated:

> While some concessions relate to a reduction in user charges, in other cases the charges they apply to are more akin to taxes, and the targeted 'concession' should be seen as a targeted taxation offset (for example, concessions on rates and motor vehicle registration charges). (*Pension Review Report*, 2009, p. 103).

In South Australia, the emergency services levy concession is a targeted taxation offset provided by the State government against a tax levied by that same government. The local government rates concession is a targeted taxation offset provided by the State government against a tax levied by a different tier of government.

The principal conclusion of the Henry Tax Review's discussion of Australia's concessions system was that a further more detailed review of that system was needed, that this review should be conducted by the Productivity Commission, and that its recommendations should be put to the Council of Australian Governments (COAG).[4] Although the Henry Tax Review did not specifically address the local government rates concession in any detail in reaching this conclusion, it stated as its grounds for a further review of the concessions system as a whole:

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[4] See Recommendation 107 at p. 101 of Part One of the Report and Section F6 of Part Two of the Report.

> The provision of this type of transfer across the three levels of government is not always consistent with other aspects of the tax and transfer system. The use of concession cards as a gateway to a number of concessions provided by the Australian, State and local governments creates a strong incentive for people to gain eligibility for concession cards. Further some concessions are regressive, as they effectively provide higher value to people with higher means (p. 67).

The Henry Tax Review stated "concessions for local government rates can be regressive with respect to wealth holdings because the dollar value of the concession is often greater for people with higher valued properties" (p. 623). But the structure of the South Australian concession means that is unlikely to be a significant concern in this State. Of greater concern in terms of potential regressivity in the South Australian program would be the Review's comments: "renters may effectively pay rates in the form of higher rental payments and get no assistance" (*ibid*, p. 624).

Whilst essentially leaving the work of a thorough examination of Australia's Concessions System as a whole to the Productivity Commission, the Henry Tax Review did point to some "Reform Directions" across this area, stating:

> ... continuing to provide concessions under the existing arrangements may not be sustainable as the population ages .... There is a strong case for rationalising the number of concessions as well as converting some into cash transfers or tax reductions. Concessions that provide relatively more value to people with greater means should be priorities for reform. There is also a case for greater coordination across the federation ... (*ibid*, p. 625).

The above comments on the Henry Tax Review's discussion of Australia's concession system needs to be complemented in the present context with some references to the Review's findings on Australia's system of local government rates as a tax, and in particular on how well that system performs as compared with Australia's other existing forms of taxation.

In short, the Review was very positive about Australia's local government rates system, in stark contrast to its conclusions regarding stamp duty on property-transfers, and regarding Australia's present land tax arrangements. The Review stated:

> The estimated welfare losses of municipal rates and land tax are lower than or similar to, those of the GST – and a lot lower than for personal tax on labour income and company income tax (*Australia's future tax system, Report to the Treasurer December 2009*, Part One, p. 13).

Further, it was stated that:

> Overall, council rates are relatively efficient simple and fair taxes .... Rates are generally applied to all land uses with limited exceptions and apply equally to all properties within the council area .... The low rates, lack of thresholds and limited range of concessions provide limited tax planning opportunities (pp. 258-9).

and

> The immobility of land makes rates based on land value an appropriate tax base for local governments (p. 71).

The Review's main recommendation for change in the area of local government rates was:

> Over time, state land tax and local government rates should be more integrated. Tax payers could receive one tax assessment that identifies local government rates and State government land tax in a transparent manner (p. 71).[5]

Harmer's Review into Australia's Pension System had been published while the Henry Tax Review was still in progress. The segments of the Henry Tax Review discussed above made references to, and were informed by, the findings of the Harmer Report into the role of concessions in the context of Australia's pension system. The Harmer Report viewed local government rates concession as being among those components of the overall pension system that serve towards "supporting housing and personal infrastructure", assisting pensioners to manage "much larger, often periodic expenditure[s]" (*Pension Review Report*, 27 February 2009, pp. 101-102).

Electricity, water and sewerage concessions were identified as belonging to this same category. In this context, the targeting of the local government rates concession to owner-occupiers would appear to be aimed at supporting ageing persons remaining in their own homes for longer than may otherwise be the case, with benefits for their health and social well-being (and perhaps securing government cost-savings in other parts of the framework of programs providing assistance for the aged).

The Harmer Report expressed concern that "In some areas the real value of concessions is reducing because indexation arrangements for the cash value of the concession are not keeping pace with price changes .... For example, the increase in general rates in virtually all States has far outstripped any indexation arrangements for concessions on rates, leaving pensioners to fund any difference" (p. 112). But otherwise it said little more about the local government rates concession in its discussion of the overall Australian concessions system and pensioners.

In the context of overall concessions system facing Australia's pensioners, the review concluded that: "options for tighter targeting should be explored, including the scope for varying the types and levels of concessions available to different cardholders. This would provide the capacity to enhance the value of concessions and services to those with the least means and highest needs ..." (p. 113). The Report's Finding No. 20 reads "The Review finds that the targeting of concession cards does not effectively complement the role of income support in addressing the needs of groups with high costs and that this needs to be addressed in consultation with the states and territories".

3.3 The Sustainable Budget Commission (SBC) report

The Second Report by South Australia's *Sustainable Budget Commission* (2010) was published in August 2010. The Commission members would thus have been aware of the findings and recommendations of the two Commonwealth Government level Reviews discussed above. The principal recommendation of Volume One of the SBC Report, in the area of State Government Concessions, was in harmony with the findings of the Henry and Harmer Reports and reads: "The Commission recommends that State Government concessions should be targeted at sections of the community most in need. This may be assisted by Commonwealth reforms to concession and eligibility" (*Budget Improvement Measures, Restoring Sustainable State Finances, Second Report by the Sustainable Budget Commission*, Recommendation 24, p. 81). In its preamble to this recommendation, the

[5] And see Recommendation 121 (p. 103).

Commission stated that it had tried “to identify proposals that retain equity by targeting concessions at those most in need”, but that “The ability of the State Government to assess income and wealth is limited ... [and] complex and costly to administer”. The Commission therefore judged it to be “sensible to ‘piggyback’ on the eligibility criteria for certain entitlement cards (largely issued by the Commonwealth government) to determine eligibility” (p. 80). Effectively this appears to indicate that the Commission supports waiting for the Commonwealth to act on improved targeting of its eligibility cards, before making any major changes in the State sphere. That interpretation would be compatible with the Commission’s comments “Any reforms in this area will only be achieved over the longer term. Consultation with the Commonwealth Government and interstate jurisdictions will be needed” (*loc cit,* p. 80).

It is therefore surprising that in Volume 2 of the SBC Report, among its “Specific Savings Recommendations”, the Commission recommends the complete removal of “the concession provided on council rates by the State Government to eligible recipients” with this to have full effect commencing with the 2011-12 financial year (p. 428). The Commission asserts that local councils “are the most appropriately placed to deliver concessions”, and on the basis of that assertion simply proposes to shift the cost of providing this targeted tax offset program from the State government tier to the local government tier (*loc cit*, p. 428). This does not appear to be consistent with the analysis of Australia’s tax and transfer system provided in the Henry Report.

If the goal of the local government rates concession is to ameliorate hardship among home owners with low economic means (or who are asset-rich income-poor), a tier of government above the local government tier is probably best placed to undertake the funding of this type of targeted tax-offset program. If it were left to be provided and funded by the local government tier, competition between LGAs could lead to a sub-optimal level of the transfer. It was this type of reasoning which was behind the Henry Report adopting the principle: “The Australian government should be responsible for funding those transfers that ensure that all Australians have access to a basic standard of living. State and local governments may choose to provide additional funding, reflecting area-specific concerns” (see Part Two of the Henry Tax Review, 2010a, p. 620).

The South Australian government response to the SBC’s second report was published in September 2010. The response to Recommendation 24 was “Support in principle”, with the comment “The Government supports the principle of targeting assistance to those most in need”, and the implementation timetable for this indicated as “ongoing” (p. 12 of *Government Response*). If the South Australian government were to increase the present level of the local government rates concession to a level greater than $190 p.a. for those judged to be “most in need”, whilst providing smaller (or zero) increases for the remainder of those currently eligible for the concession, that would appear to be in keeping with the SBC Report’s recommendation 24, and with the South Australian government's published response to that recommendation.

4. Trend Analysis

4.1 Real value of concessions

The maximum concession paid for council rates is currently $190 in any financial year. This maximum has not been increased since 2002 and consequently has failed to keep pace with inflation, eroding the true value of the concession paid to recipients. The LGA has asked that cost of living trends and the "net present and future value" of the maximum $190 concession be calculated and projected for the period from 2002 to 2015.

In order to understand how the real value of the concession has changed over time, we have adjusted the nominal value of the concession for general price inflation using the Consumer Price Index (CPI) for Adelaide published by the Australian Bureau of Statistics. Historical CPI data is available up to 2010 on a calendar year basis. Projections of future growth in the CPI are based on historical growth in the CPI over the long term. The Adelaide CPI grew at an average rate of 2.7 per cent per annum over the 20 year period to 2010. In comparison, the national CPI over this period grew at a marginally slower pace of 2.6 per cent per annum on average. We have consequently assumed that the Adelaide CPI rises by 2.7 per cent per annum over the period from 2010 to 2015.

Table 4.1 shows the historical and projected estimates of the Adelaide CPI, the nominal value of the maximum concession, and the real value of the maximum concession in terms of 2002 dollars and 2010 dollars for the period 2002 to 2015. It is assumed that the maximum concession remains at its current level of $190 per year in the forward estimates.

Measured in terms of 2002 dollars, the real value of the maximum concession has fallen from $190 in 2002 to $151 dollars in 2010, which represents a 20 per cent decline in the real value of the concession. Looking forward, the real value of the concession (in 2002 dollar terms) is projected to fall to $132 by 2015 on the basis of our projected future growth in inflation.

Table 4.1
Historical and Projected Nominal and Real Value of Maximum Rates Concession

Year	CPI, Adelaide - all groups	Maximum council rates concession ($190)		
		Nominal	Real ($2002)	Real ($2010)
2002	139.7	190	190	239
2003	145.1	190	183	230
2004	148.8	190	178	224
2005	152.6	190	174	219
2006	157.8	190	168	211
2007	160.8	190	165	207
2008	168.1	190	158	199
2009	171.1	190	155	195
2010	175.6	190	151	190
2011[a]	180.3	190	147	185
2012[a]	185.2	190	143	180
2013[a]	190.2	190	139	175
2014[a]	195.3	190	136	171
2015[a]	200.6	190	132	166

Note: [a] Projections by SACES.
Source: ABS, Consumer Price Index, Australia. Cat. No. 6401.0. Calculations by SACES.

It is interesting to consider how the value of the maximum concession would have changed had it been subject to indexation – see Table 4.2. If the maximum council rate concession had been indexed to the Adelaide CPI since the last increase in the concession in 2002, then the nominal value of the concession would have risen from $190 in 2002 to $239 in 2010. Based on our assumed future growth path for inflation, the hypothetical maximum concession would rise to $273 by 2015.

Table 4.2
Hypothetical Value of Maximum Rates Concession Assuming Indexation to CPI

Year	CPI, Adelaide - all groups	Nominal value ($)
2002	139.7	190
2003	145.1	197
2004	148.8	202
2005	152.6	208
2006	157.8	215
2007	160.8	219
2008	168.1	229
2009	171.1	233
2010	175.6	239
2011	180.3	245
2012	185.2	252
2013	190.2	259
2014	195.3	266
2015	200.6	273

4.2 Property rates

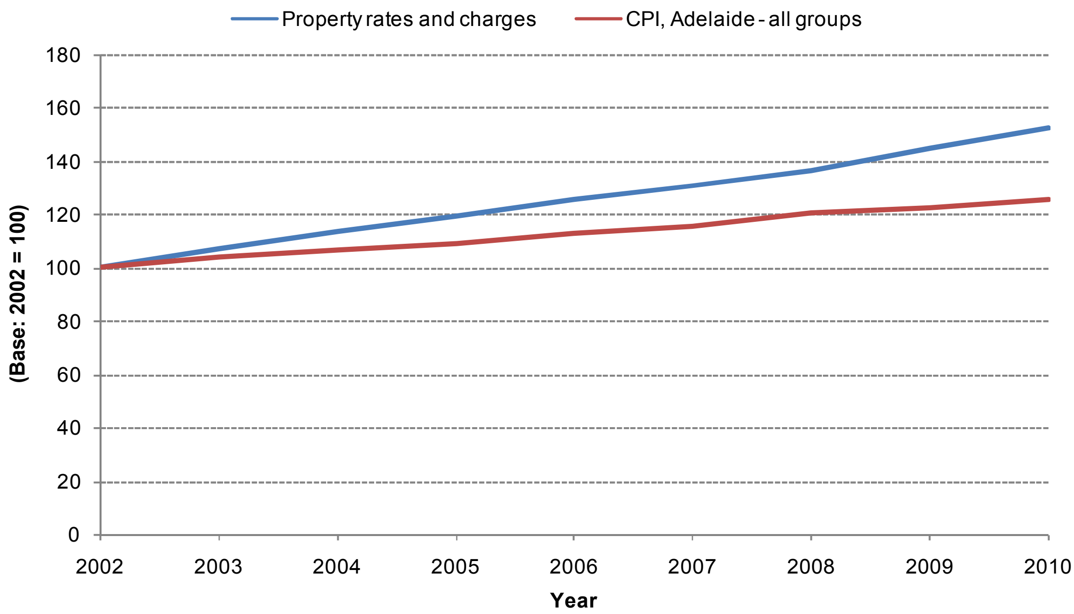
While the fixed value of the maximum rates concession means that it has eroded in real terms over time, an added issue from the perspective of concession recipients is that council rates have risen by a greater magnitude than general price inflation over recent years. Figure 4.1 shows that over the 8 years to 2010, the price index for 'property rates and charges' rose by 53 per cent, whereas the Adelaide CPI rose by 26 per cent over this period. In other words, 'property rates and charges' in real terms rose by 21 per cent over the 8 years to 2010. The implication is that property rates for concession recipients would have risen in real terms even if the concession had been indexed to the CPI.

The real growth in council rates is in part due to greater price pressures faced by local government. Figure 4.2 shows that the Local Government Price Index for South Australia grew at a faster pace than the Adelaide CPI over the 9 years to 2010/11.[6] Greater price inflation for local government relative to households reflects that the mix of goods and services purchased by local government is quite different to that faced by households, and includes items to a relatively greater extent that have faced relatively larger price increases, e.g. construction of public infrastructure (roads, footpaths, pipes), insurance services and legal services.

6 The Local Government Price Index measures price movements faced by local government in South Australia in respect of their purchases of goods and services. In comparison, the Consumer Price Index measures changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households.

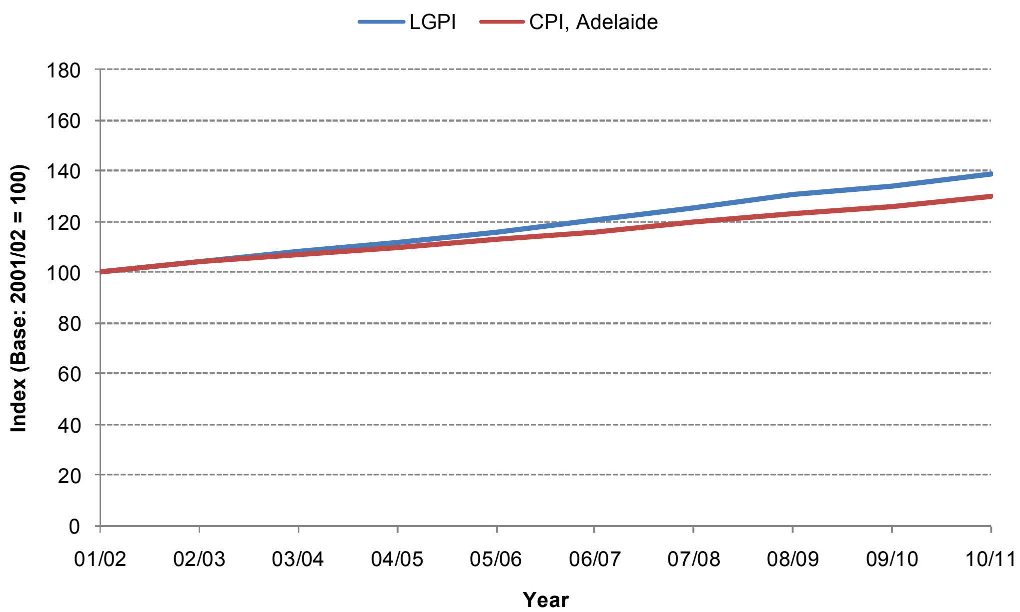
The real increase in council rates over recent years would not only reflect greater price pressures. Changes associated with intergovernmental funding arrangements including cost responsibilities, and alterations to strategic priorities for individual councils may also have led to greater cost loads for the local government sector.

Figure 4.1
Consumer Price Index – Property Rates and Charges and All Groups, Adelaide[a]



Source: ABS, Consumer Price Index, Australia, Cat. No. 6401.0.

Figure 4.2
Local Government Price Index and Consumer Price Index (Adelaide)



Source: ABS, Consumer Price Index, Australia, Cat. No. 6401.0 and South Australian Centre for Economic Studies.

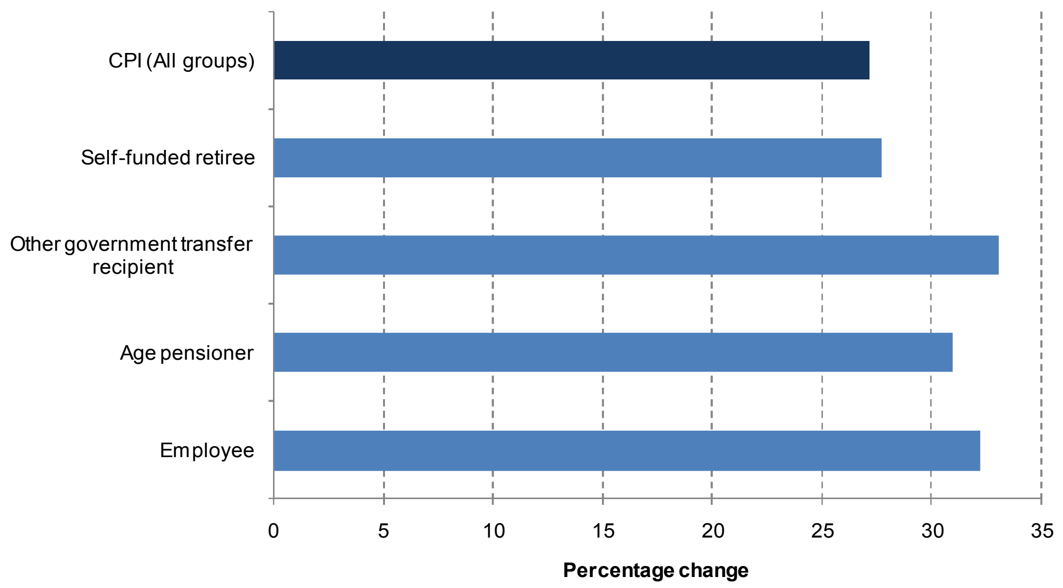
4.3 Cost of living indexes by household type

The headline CPI does not necessarily provide a good indication of actual cost of living pressures for particular households since expenditure patterns for particular household subgroups can differ significantly from the mean. For instance, households for whom the main source of income is the Age Pension tend to devote a relatively larger share of their expenditure to food and health (ABS 2011a).

The Australia Bureau of Statistics publishes Analytical Living Cost Indexes (ACLI) for selected Australian household types in order to provide insight into how the impact of price changes varies across subgroups of the Australian population (ABS 2011a). Unfortunately the indexes are not produced at a State level, but they should still be indicative of broad trends in South Australia.

Figure 4.3 shows the aggregate percentage change in the Analytical Living Cost Indexes for Australian household types between 2002 and 2010/11. Over this period, changes in living costs rose most strongly for other government transfer recipients (by 33 per cent), followed by employee households (32 per cent) and Age Pension households (31 per cent). Living costs for self-funded retirees rose by almost 28 per cent over the same period, only marginally higher than the rise in the CPI (27 per cent).[7] The relatively large increases for other government transfer recipients and employee households in part reflect the inclusion of mortgage interest and consumer credit charges in the ALCIs.

Figure 4.3
Percentage Change in Analytical Living Cost Indexes for Selected Household Types Australia, 2002 to 2010/11



[7] Note that there are important methodological differences between the Analytical Living Cost Indexes and the CPI. In addition to differences in expenditure weightings, the ALCIs include mortgage interest and consumer credit charges, while there are differing treatments in respect of housing and insurance.

4.4 Income trends and characteristics

The ability of vulnerable households to pay council rates not only depends on changes in the real value of property rates and rates concessions, but also developments in real incomes for households. In the long run there has been a trend toward growth in real incomes.[8] However, this trend may not necessarily hold for particular types of households. In order to gain perspective on changes in real incomes for low income and pensioner households, data from the Australia Bureau of Statistics' Survey of Income and Housing (SIH) was investigated.

Table 4.3 shows estimates of real equivalised disposable household mean income by quintile group. Equivalised household income represents a measure of household income that takes into account differences in household size and composition. The equivalised income concept recognises that larger households generally require a higher level of income to maintain an equivalent standard of living to smaller households, while adults typically require greater economic resources than children (ABS 2011).

Data from the SIH indicates that households in which the 20 per cent of people with the lowest equivalised household incomes live experienced the lowest rise in incomes between 2003/04 and 2009/10. Real mean equivalised disposable income for this group rose by 16 per cent over this period compared to 24 per cent for all persons. The lowest income quintile would include a large proportion of households whose main source of income is government pensions or allowances. It is important to note that the data for 2007/08 and 2009/10 are not directly comparable to earlier years, which means the results should be treated with a degree of caution.

Table 4.3
Real Equivalised Disposable Household Income, South Australia

	Mean income per week, $[a]						Mean income ratios	
Indicator	Lowest quintile (Q1)	Second quintile (Q2)	Third quintile (Q3)	Fourth quintile (Q4)	Highest quintile (Q5)	All persons	Q5 / Q1	Q4 / Q1
2000/01	231	354	485	650	1,026	549	4.4	2.8
2002/03	242	381	521	693	1,087	585	4.5	2.9
2003/04[b]	282	423	556	725	1,227	643	4.4	2.6
2005/06[b]	287	452	592	801	1,291	685	4.5	2.8
2007/08[b]	293	493	688	927	1,541	789	5.3	3.2
2009/10[b]	326	511	691	905	1,557	798	4.8	2.3

Note: [a] In 2009/10 dollars, adjusted using changes in the CPI.
[b] Estimates for 2007–08 and 2009-10 are not directly comparable with estimates for previous cycles due to improvements made to measuring income introduced in the 2007–08 cycle. Estimates for 2003–04 and 2005–06 have been recompiled to reflect the new measures of income, however not all components introduced in 2007-08 are available for earlier cycles.
Source: ABS, Household Income and Income Distribution, Australia, 2009-10, Data Cube. Cat. No. 6523.0.

The relative performance of income quintiles is sensitive to the period of analysis chosen. For example, the SIH indicates that real incomes have grown relatively strongly for households in the lowest income quintile over more recent years (11 per cent between 2007/08 and 2009/10 compared to 1.1 per cent for all persons). The large increase for the lowest income quintile may reflect the impact of a real increase in the Age Pension introduced as part of the 2009/10 Commonwealth Budget, particularly the $30 increase in the single base pension. However, such strong growth for the lowest income quintile is not evident for Australia as a whole.

[8] For example, real net national disposable income per capita for Australia grew at an average rate of 2.0 per cent per annum over the 20 year period to 2009/10 (Source: ABS, National Accounts, Cat. No. 5204.0. Calculation by SACES).

Although real incomes for low income households appear to have kept pace with real incomes for other households over the last few years, these households have suffered a relatively high degree of financial stress. Data from the 2009/10 Household Expenditure Survey shows that 69 per cent of households in the lowest equivalised household disposable income quintile reported experiencing one or more indicators of financial stress in the last 12 months compared to 41 per cent of all other households (see Table 4.4). Approximately 37 per cent of households in the lowest quintile reported experiencing four or more indicators of financial stress in the last 12 months, compared to 13 per cent of all other households.

The ABS also publishes estimate of income and expenditure by ‘life cycle’ group, which provides insight into the economic wellbeing of households composed of people of retirement age. Table 4.5 shows estimates of mean gross household income per week and mean net worth for households in South Australia by life cycle group in 2003/04 and 2009/10. People aged 65 years and over who were living alone had the lowest mean gross household income per week in 2009/10 ($480), while couples where the reference person was aged 65 years and over had the second lowest weekly income ($789). The income poor nature of these households is offset to some extent by greater wealth. Mean household net worth for couples where the reference person was aged 65 years and over was well above the average for all persons in 2009/10 ($799,000 compared to $572,000). However, net worth for lone persons aged 65 years and over ($445,000) was below the population average.

Table 4.4
Financial Stress Indicators, by equivalised disposable income quintile
South Australia 2009/10

Number of indicators of financial stress experienced in the last 12 months	Equivalised Household Disposable Income Quintile					All households
	Lowest	Second	Third	Fourth	Highest	
None	31.3	42.4	56.6	63.0	77.3	52.0
One	11.9	16.0	17.7	14.4	*11.4	14.3
Two	8.8	*7.8	*7.3	*8.7	*7.5	8.1
Three	10.6	*7.4	*4.9	*5.3	**2.3	6.5
Four or more	37.4	26.4	13.5	*8.6	**1.6	19.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: * Estimate has a standard error of 25 to 50 per cent.
** Estimate has a standard error of more than 50 per cent and is considered too unreliable for general use.
Source: ABS, Household Expenditure Survey, Australia: Summary of Results, 2009/10, Data Cube. Cat. No. 6530.0.

Comparisons of changes in gross household disposable income over time show disparate trends for elderly life cycle groups.[9] Mean gross household income for lone persons aged 65 years and over rose by 47 per cent between 2003/04 and 2009/10, which is slightly stronger than the rise in mean income for all persons over this period of 44 per cent. In contrast, mean household income for couples where the reference person was aged 65 years and over rose by 31 per cent. Interestingly, the lowest rise in income was recorded for couple only households where the reference person was aged 55 to 64 years (18 per cent). This result may in part reflect changing lifestyle trends, such as the trend towards earlier retirement.

9 It is important to note that the estimates of gross household income derived from the Household Expenditure Survey for 2003/04 and 2009/10 are not directly comparable. Nonetheless, they should be indicative of differences in income growth between life cycle groups over time.

Table 4.5
Household Gross Income and Net Worth by Life Cycle Group, South Australia

	Mean gross household income per week			Mean household net worth		
	2003/04 ($)	2009/10 ($)[a]	% change[a]	2003/04 ($)	2009/10 ($)	% change
Lone person aged under 35	652	880	35.0	72,627	179,126	146.6
Couple only, reference person under 35	1,472	1,859	26.3	188,826	213,308	13.0
Couple with dependent children only:						
Eldest child under 5	1,097	2,105	91.9	373,770	882,564	136.1
Eldest child 5 to 14	1,513	2,356	55.7	442,296	636,634	43.9
Eldest child 15 to 24	1,749	2,786	59.3	504,177	1,076,393	113.5
Couple with:						
Depend't & non-depend't children only	1,919	2,558	33.3	357,087	563,191	57.7
Non-dependent children only	1,608	2,299	43.0	433,908	827,467	90.7
Couple only, reference person 55 to 64	1,172	1,383	18.0	694,768	883,008	27.1
Couple only, reference person 65 & over	604	789	30.6	509,115	799,462	57.0
Lone person 65 and over	326	480	47.2	252,306	445,024	76.4
All persons	1,033	1,492	44.4	357,911	571,862	59.8

Note: [a] Estimates for 2009/10 are not directly comparable with estimates for 2003/04.
Source: ABS, Household Expenditure Survey 2009/10, Data Cubes. Cat. No. 6530.0.

Table 4.6
Household Gross Income and Net Worth by Life Cycle Group, Australia, 2009/10

	Gross household income		Equivalised disposable household income	
Household characteristics	Mean income ($)	Median income ($)	Mean income	Median income
Lone person aged under 35	1,152	1,018	938	855
Couple only, reference person under 35	2,128	2,001	1,162	1,124
Couple with dependent children only:				
Eldest child under 5	1,953	1,774	822	729
Eldest child 5 to 14	2,341	1,892	865	720
Eldest child 15 to 24	2,742	2,133	912	731
Couple with:				
Depend't & non-depend't children only	2,897	2,540	896	823
Non-dependent children only	2,478	2,175	995	886
Couple only, reference person 55 to 64	1,584	1,225	925	760
Couple only, reference person 65 and over	919	646	594	435
Lone person 65 and over	485	375	473	375
All persons	1,688	1,320	848	715

Source: ABS, Household Income and Income Distribution, Australia, 2009-10, Data Cube. Cat. No. 6523.0.

Unfortunately, equivalised measures of household income by life cycle group are not published at a state level. However, national data presented in Table 4.6 is consistent with the South Australian data in terms of indicating the cash poor nature of older households.

4.5 Other state government concessions

Table 4.7 presents a comparison of the level of various State Government concessions over the period from 2004/05 to 2012/13 based on historical data and State Government announcements regarding future concession levels.

With the exception of one off concessions with respect to electricity, concession levels were unchanged from 2004/05 to 2007/08. Water concessions were raised significantly in 2008/09, with the maximum concession for owner-occupiers rising from $95 to $200. The eligibility criteria were also expanded to include tenants, albeit at lower concession levels.

All major concessions with the exception of rates concessions are currently in the process of being raised over the 3-year period to 2012/13. The maximum water concession for owner-occupiers is being raised by 32.5 per cent, from $200 in 2009/10 to $265 in 2012/13. The electricity concession is being raised by 37.5 per cent, from $120 to $165 over this period. The sewer concession is being raised by 16 per cent, from $95 in 2009/10 to $110 in 2012/13, while the Emergency Services Levy is rising by 15 per cent, from $40 to $46.

Clearly the recent path for rates concessions is at odds with the treatment of other major concessions.

Table 4.7
Historical and Announced State Government Concession Levels

Concession Type	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Council rates									
Maximum – pensioners, low-income	190	190	190	190	190	190	190	190	190
Maximum - Seniors card only	100	100	100	100	100	100	100	100	100
Water									
Owner Occupiers									
Maximum	95[a]	95[a]	95[a]	95[a]	200[b]	200[b]	210[b]	235[c]	265[c]
Minimum	na[a]	na[a]	na[a]	na[a]	95[b]	95[b]	100[b]	125[c]	155[c]
Tenants									
Maximum	na	na	na	na	160[b]	160[b]	168[b]	182[c]	200[c]
Minimum	na	na	na	na	55[b]	55[b]	58[b]	72[c]	90[c]
Sewer	95	95	95	95	95	95	100	105	110
Electricity	120[d]	120[e]	120	120	120	120	150	158	165
Emergency Service Levy	40	40	40	40	40	40	42	44	46

Note:
[a] Rates calculated as the lesser of 60 per cent of water rates or the prescribed amount ($85), plus $10.
[b] Concession set at 20 per cent of the total annual water bill subject to the maximum and minimum limits.
[c] Concession raised to 25 per cent of the total annual water bill subject to the maximum and minimum limits.
[d] One off Energy Concession Bonus was paid to each customer eligible for the Electricity Concession. In addition, a one off $50 Electricity Transfer Rebate was available up to 13 August 2004 for pensioners and self funded retirees who take out a market contract for electricity.
[e] Extended to Centrelink Allowance recipients without dependents and students in receipt of Austudy or Abstudy allowances (South Australian Government 2005).

Source: SACOSS and Department for Families and Communities (2011).

5. Assessment of Targeting

An analysis was carried out of the targeting of council rate concessions against a number of measures of income.

The analysis was carried out using wave 9 data from the *Household, Income and Labour Dynamics in Australia Survey* (HILDA).[10] HILDA is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). It is a household based survey encompassing all but some very remote households in its scope and it collects a large amount of information regarding household circumstances.

HILDA is particularly useful for our purposes because it allows us to identify households that meet the eligibility criteria for council rate concessions and then to consider the income circumstances of eligible and ineligible households.

Households' eligibility status was identified according to a range of variables in the HILDA dataset. Data were available for most of the eligibility criteria in a form that we believe is likely to conform quite closely with the administration of the scheme, although the match is not exact.

The most significant shortcoming in the data was that the "employment status" variable that we used to test Seniors Card eligibility and payment eligibility for partnered persons with seniors card allowed us to distinguish only whether hours of work were "none", "less than 35" or "35 or more".[11] We considered two approximations: one in which we assumed that persons working less than 35 hours all meet the 20 hours eligibility criterion, and one in which only those who are not working meet the 20 hours criterion.

On our estimates, there were 184,000 South Australian households eligible for the \$190 concession in 2010 (28 per cent of all households) – Table 5.1. Because households receiving the \$190 concession cannot receive the \$100 concession as well, the number qualifying for the \$100 concession was relatively small at just 11,600 households (1.8 per cent of households).[12] 231,000 households which had an owner present did not meet any of the card/payment/low income criteria and thus were ineligible (35 per cent). 224,000 households did not have the owner in the household and were ineligible on that ground at least (34 per cent).

Under the alternative approximation where we assume that that only those who are not working meet the 20 hours criterion, the number of households eligible for the \$100 concession declines from 11,600 households to 7,700 households – refer Table 5.2. Only 1.2 per cent of all households are eligible for the \$100 concession under this tighter eligibility criteria assumption.[13]

10 The latest wave of the HILDA Survey collected financial year data for 2008/09. We escalated this by 4 per cent to produce a 2009/10 estimate. The relativities reported here would be unchanged if this 4 per cent was removed and the discussion was couched in terms of 2008/09 incomes.

11 'Employment status' categories as recorded in the variable "ihges" include '0 Less than 15 years old at 30th of June' ; '1 – Employed (Usually works 35+ hour per week' ; '2 - Employed (usually works less than 35 hours per week) ; '3-Not employed but is looking for work'; '4 – Retired' ; '5-Home duties' ; '6-Non-working student' and '7-Other'.

12 This implies that a combined total of 195,600 households are estimated to be eligible for the concession. Administrative data indicates that approximately 180,000 recipients received the concession in 2009/10. These results suggest a relatively high take up of the concession.

13 The decrease in households eligible for the \$100 concession is offset by an increase in homeowners that are not eligible for the concession, from 231,000 to 235,000 households.

There are a number of income concepts that can be used to evaluate distributive schemes against capacity to pay criteria.

One problem that arises in the analysis of income distribution is that differences in household composition undermine the validity of cross-household comparisons. For example, we surely would not want to say that a couple household with two children and income of $50,000 is financially as well-off as a single person household with income of $50,000; in the former case the $50,000 needs to stretch across two adults and two children and this household must therefore be financially worse off.[14] Analysts of income distribution make allowance for differences in household size with the use of "equivalence scales". For this study, we follow the approach of the ABS, which constructs an equivalence scale with a weight of 1.0 for the first person in a household, 0.5 for the second and subsequent adults in the household, and 0.3 for each child in the household (ABS, 2011, p. 64). Thus the household with two adults and two children would have a value of 2.1 on the equivalence scale (1.0 for the first adult, 0.5 for the second adult, and 0.3 for each of the two children). The actual income of the household is then divided by this equivalence scale to produce an estimate of "equivalised income" estimate. For the couple with two children household and $50,000 gross income, this equivalised income is about $23,800. The implication is that this household is financially as well-off as a single person with $23,800 of income – clearly nowhere near as well off as the single person household with $50,000 of income. It is now common practice to make comparisons of income across different household types using equivalised income, and comparisons based on un-equivalised gross income are likely to be spurious

We have employed the ABS equivalence scale to the household income data in HILDA to produce estimates of equivalised income. The third column of Table 5.1 shows average levels of equivalised gross income in each of the eligible and ineligible groups. The average 2009/10 equivalised gross income across all households in South Australia was $45,400. The average for households receiving the $190 concession was well below this at $31,300. However, the average for households qualifying for the $100 concession based on the Seniors Card was very high at $70,400. In fact the households receiving payment by virtue of their Seniors Card status had considerably higher incomes than the ineligible groups. Ineligible homeowners had an average equivalised income of $64,200. Ineligible non-homeowners – mainly renters – were actually the poorest group of all, with an average of $29,100. If it were the case that their landlords received the concession and passed it on in the form of lower rents, it might be argued that this group did, in an indirect way, get the concession, but that is not the case.

Not surprisingly, changing the hours worked criteria to also exclude all those people who were working less than 35 hours significantly alters the estimated mean income for households that qualify for the $100 concession (see Table 5.2). The mean equivalised gross household income for this group falls from $70,400 to $48,700. However, even with this highly restrictive assumption, the mean income for households eligible for the $100 concession remains above the average for all households in South Australia ($45,400), and well above the average for those households that qualify for the $190 concession ($31,300). The results reflect that the Seniors Card eligibility criterion of not working more than 20 hours per week is a relatively poor basis for targeting low income households.

[14] Possibly they are better off by virtue of the happiness that comes from living in the family environment, but this non-financial aspect is usually, and in this study, treated as beyond the scope of the income distribution analysis.

A further important issue is home ownership. Home owners receive a substantial benefit – a non-cash income stream – in the form of occupying the house that they own. In some cases, however, there will be an offsetting cost in the form of mortgage interest payments.[15] Non-cash income streams of this type have a major bearing on household wellbeing and should be included in a distributive analysis. Arguably they should also be taken into account in the calculation of tax liabilities and entitlements for transfer payments. From time to time one will hear objections along the lines that a particular household is "asset rich but cash poor". But as the former Commonwealth Minister of Finance Peter Walsh once said, "being income poor and asset rich beat the hell out of being income poor and asset poor as well" (Walsh 1995 p. 112). These considerations apply strongly in the case of home ownership: having an income of $50,000 and owning a home outright "beats the hell out" of having an income of $50,000 and being in the private rental market.

To make allowance for this, we imputed the income stream associated with home equity. We deducted outstanding home loan amounts from the value of the home for homeowners and applied a 4 per cent earning rate to the home equity amount (4 per cent is thought to be a reasonable estimate of the long run average rate of private rent per dollar of home value). This imputed income stream was then added to the gross income of each household except for non home owning households.[16] The fourth column of Table 5.1 shows the results. With imputed home equity income included, the average equivalised income across all South Australian households was $50,800. The average for recipients of the $190 concession was $40,400, still below the average. The average income of households eligible by virtue of Seniors Cards was $86,000, far in excess of the all-households average. Households that were ineligible by virtue of not owning their home had average income of $36,600, which was the lowest average among all the four groups. Yet they are not eligible for any concession. A similar story holds for Table 5.2 under the alternative $100 eligibility criteria assumption.

Table 5.1
Estimated Number of Households and Household Income by Concession Eligibility Criteria
(persons working less than 35 hours meet 20 hours eligibility criterion for $100 concession)
South Australia, 2010

	Number of households	Mean equivalised household gross income ($ per annum)	Mean equivalised household gross income including imputed return to home equity ($ per annum)
Insufficient information	1,444	29,098	33,727
No concession – not homeowner	224,265	36,571	36,571
No concession – is homeowner	230,705	64,151	71,193
$100 concession (less than 35 hours)	11,638	70,381	85,999
$190 concession	184,270	31,300	40,358
Total households	652,323	45,423	50,761

Source: HILDA. Calculations by SACES.

15 The element of the mortgage payment which goes to repayment of principal should be thought of as saving rather than as a cost incurred.

16 For non home owning households, zero/no imputed income has been added to their gross income.

Table 5.2
Estimated Number of Households and Household Income by Concession Eligibility Criteria
(only persons who are not working meet the 20 hours criterion for the $100 concession)
South Australia, 2010

	Number of households	Mean equivalised household gross income $ per annum)	Mean equivalised household gross income including imputed return to home equity ($ per annum)
Insufficient information	1,444	29,098	33,727
No concession – not homeowner	224,265	36,571	36,571
No concession – is homeowner	234,629	64,970	72,174
$100 concession (not working only)	7,715	48,675	63,702
$190 concession	184,270	31,300	40,358
Total households	652,323	45,423	50,761

Source: HILDA. Calculations by SACES.

6. Consultations

Face-to-face consultations were carried out with representatives of the Council of Ageing, the South Australia Council of Social Services (SACOSS) and the Salvation Army to get their views and perspective on the current and proposed concessions. A representative of Onkaparinga Council was also consulted in order to obtain feedback on administrative aspects of the concession from a local government perspective, including other concessions offered by local government.

It is important to note that some of the views expressed here reflect individual perspectives and should not necessarily be taken as the official positions of the organisations involved.

Indexation of concessions

The lack of any indexation of the rates concession is considered deeply flawed, even “absurd”. The purpose of concessions is to help vulnerable households maintain a minimum level of social living standards, and to the extent that concessions do not keep pace with the cost of living, the effectiveness and relevance of the concessions erodes over time. Some form of indexation of the rates concession is consequently considered necessary.

One organisation felt that indexing concessions to CPI would not provide sufficient relief since real cost of living pressures for low income households have generally been greater than indicated by headline CPI. Essential goods and services such as utilities tend to account for a relatively larger share of total expenditure for low income households, and prices for these goods and services have tended to rise by more than headline CPI over recent years. We saw earlier that the price index for property rates has risen by significantly more than CPI since 2002 (see section 4.2). Is it important to note that the real value of the Age Pension has been better preserved than the Newstart Allowance over recent years as the latter is indexed to CPI, whereas the Age Pension is indexed to the greater of the increase in the CPI or Pensioner and Beneficiary Living Cost Index, with further adjustments made if necessary following a comparison with Male Total Average Weekly Earnings.

There was a concern that the fixed nature of the concessions combined with increases being made on an ad hoc basis exposed the concessions system to political manipulation. A formal system of indexation would reduce the incentive for one off increases in concessions targeted at particular cohorts in line with the political cycle.

All stakeholders agreed that the maximum $190 rates concession was a higher priority for indexation than the $100 concession given that the former was better targeted at low income households i.e. those most in need. This is consistent with our assessment of targeting using data from the HILDA survey which showed that individuals who qualify for the $100 concession tend to have above average incomes.

Other concessions

Concessions for energy and water have generally been given greater focus due to the relatively large price increases that have occurred for these services over recent years. Enquiries from the public and requests for support have tended to focus on energy and water concessions rather than rates.

A focus on energy and water concessions may also be partly due to analytical reasons: underlying pricing principles for energy and water are generally consistent across the state, but rates, including the methodology used to set rates, varies across councils. These differences, combined with different remission and concession policies set by councils, makes it more difficult to assess the impact of rates concessions on target populations.

Like rates concessions, the level of energy and water concessions were unchanged for many years, but unlike rates concessions, they have increased more recently. However, the recent increases are not considered sufficient given the large price rises that have occurred for these services.

The concessions system

There was recognition that the concessions system may need fundamental rethinking in terms of how they are targeted and delivered, including by which level of government, as part of a broader consideration of the tax and transfer system. One stakeholder expressed the view that since concessions are designed to supplement incomes, there are strong grounds for them to be delivered by Commonwealth government as part of income support payments such as the Age Pension and Newstart Allowance. An advantage of the Commonwealth system is that the application of income and asset tests enables better targeting of support to those in need.

Role of councils and rates

Councils were generally considered to be flexible and easy to deal with when it came to rearranging payments to help assist clients facing hardship, although the experience was not consistent across councils, and may have deteriorated over time.

While councils were considered to be flexible, there was a concern that in some instances such flexibility has involved penalties such as the charging of interest on delayed payments. Such practices were considered to be self defeating given the vulnerable situation of the persons involved, and should be avoided where possible.

One welfare organisation noted that, for households experiencing financial stress, payment of council rates may be given a lower priority than other costs such as utilities, partly because the services associated with Council rates were less immediately obvious to the household. There is consequently a risk of households building up significant council rate debts over time. An example was given of a client recovering from a dire financial situation, getting all their other finances in order, then receiving a significant council rate bill with the risk of losing their home. There is a need to monitor such cases in order to try and prevent financial problems from snowballing.

Postponement of rates

The state scheme which allows seniors to postpone part of their rates payment was considered a welcome feature. It helps to address the issue of pensioners being asset rich but income poor. In addition, it assists older people to stay in their own homes, which is considered a significant positive outcome in terms of the mental wellbeing of the individuals involved as well as reducing pressure on public services such as aged care.

It was noted that take up of the scheme may currently be low due to generational issues, such as a reluctance of older cohorts to take on debt. A desire to maximise bequests and endowments to children and relatives may be an additional factor discouraging postponement of rates. It was suggested that this situation may change over time as the baby boomer generation retires given their significant wealth, willingness to spend, and familiarity with new financial products.

Administrative matters

There were concerns expressed about the complexity of the application form used by the Department for Families and Communities. The current form is used for concessions relating to household water and sewerage rates, council rates and the energy concession, and apparently represents a significant increase in complexity compared to the previous form used by SA Water to administer the scheme. It is considered to be a complicated form to completed, particularly for those from culturally and linguistically diverse backgrounds.

A related concern associated with the complexity of the application form was the recent impact of State budget cuts on financial counselling services. Based on a recommendation from the Sustainable Budget Commission that "proposed efficiencies can also be generated through… the devolution of financial counselling services and emergency assistance payments to the NGO sector, where it is more appropriately placed" (SBC 2010, p. 399), 44 full-time equivalent positions have been removed from the Anti-Poverty Program within Families SA. Many of these positions were associated with provision of financial counselling services, and it is understood that access to remaining financial counselling staff has been restricted to existing clients (SACOSS 2011). Clearly this decision represents a transfer of support burden from the State to NGO sector. There are consequently concerns about the ability of welfare organisations to accommodate additional client loads.

Renters

Low-income households presenting for emergency assistance would tend to be renters rather than property owners. It was observed that owning your own property outright makes a big difference to your ability to survive on a low income given the significant nature of housing costs.

7. Conclusions and Recommendations

The real value of the State government rates concession for pensioners, self funded retirees and low income households who own their own home has eroded significantly since 2002 given no change to the level of the concession. On the basis of changes in the CPI for Adelaide, the real value of the concession is estimated to have fallen by 20 per cent between 2002 and 2010.

The erosion of the real value of the concession has taken place at a time when council rates have grown significantly in real terms: ‘property rates and charges’ in Adelaide rose by 21 per cent in real terms over the 8 years to 2010. The impact of real increases in property rates on pensioners has been offset to some extent by council measures such as rates caps and additional concessions delivered by local government on an ad hoc basis.

Concern about the decline in the real value of concessions has been expressed at the Commonwealth level, with the Harmer Report stating that:

> In some areas the real value of concessions is reducing because indexation arrangements for the cash value of the concession are not keeping pace with price changes…. For example, the increase in general rates in virtually all States has far outstripped any indexation arrangements for concessions on rates, leaving pensioners to fund any difference (p. 112).

Increases in the cost of living can be offset by growth in real incomes over time. There is evidence that real incomes for low income households and pensioners has grown relatively more slowly compared to the population as a whole, although the experience is not uniform, and a more detailed analysis of the available data sources (than could be undertaken within the resource limits of this report) is required to properly understand real income dynamics over the past decade.

South Australian data from the Survey of Income and Housing indicates that households in which the 20 per cent of people with the lowest equivalised household incomes live – which would include a large proportion of people whose main source of income is government pensions or allowances – experienced the lowest rise in real mean equivalised income between 2003/04 and 2009/10 (16 per cent compared to 24 per cent for all persons).[17] Meanwhile, data from the Household Expenditure Survey suggests that gross household incomes for couple households where the reference person was aged 55 or over rose by a below average amount over the period from 2003/04 to 2009/10. In contrast, gross household incomes for single person households aged 65 years and over rose by an above average amount over this period. The solid rise in incomes for single person households would in large part reflect the $30 increase in the single base pension that was implemented as part of the 2009/10 Commonwealth Budget.

While the ongoing decline in the real value of the rates concession combined with evidence of below average growth in real incomes for low income households provides a strong rationale for raising the rates concession, additional elements to consider include the effectiveness of the targeting of the rates concession and the dynamics of funding responsibilities between the various levels of government.

The Henry and Harmer Reviews, along with the Second Report of the Sustainable Budget Commission, all make reference to the importance of targeting concessions to those most in need. This desirability was also emphasised by the stakeholders consulted as part of this

[17] Interestingly, this group recorded the largest gain in real mean equivalised income between 2007/08 and 2009/10.

study. Our analysis of data from the HILDA Survey indicates that while the concession for pensioners is relatively well targeted, the concession for people who qualify on the basis of their State Seniors Card eligibility performs poorly on this basis. Households who qualify for the $100 concession were found to have a mean equivalised gross household income above the average for all households in South Australia, and well above the average for households who qualify for the $190 concession. Any increase in the rates concession should consequently focus on the $190 concession for Pensioners and other Centrelink beneficiaries on low incomes.

The issue of funding responsibilities between state and local government is more complex. One perspective is that of the Sustainable Budget Commission, which recommended the complete removal of the rates concession, asserting that since councils "are responsible for setting the rates in their respective jurisdictions they are the most appropriately placed to deliver concessions" (SBC, p. 428). We strongly disagree with the Sustainability Budget Commission's rationale for devolving all responsibility to local government. If the goal of the rates concession is to ameliorate hardship among home owners with low incomes or who are asset-rich but income-poor, a tier of government above the local tier is arguably better placed to undertake the funding of this type of targeted tax-offset program. If it were left to be provided by and funded by the local government tier, competition between LGAs could lead to a sub-optimal level of the transfer. There are also horizontal equity grounds for preferring delivery of the concession by a higher level of government, since differences in the size and composition of councils (in terms of demographics and balance between residential and commercial properties) may affect their capacity to deliver concessions to equivalent target groups. Furthermore, there is potential for regressivity to the extent that cross subsidies mean that low income renters may effectively pay rates in the form of higher rental payments, but are ineligible for the rates concession. However, these arguments do not prevent some level of assistance from being delivered by local government, recognising that differences in rates between councils will to some extent reflect differences in strategic objectives.

One additional potential flaw on equity grounds with respect to the targeting of the rates concession may be the exclusion of low income non-home owners. Our analysis of the HILDA data indicates that ineligible renters had the second lowest mean equivalised household income behind those households who qualify for the $190 concession. It is likely that this group includes households with very low incomes and relatively high housing costs, yet they may not receive a concession for housing assistance unlike some senior households who have a similar level of income but relatively lower housing costs and greater wealth due to the fact they own their home outright. We note that the Australian Government currently provides Rent Assistance as an income support supplement to the pension, allowance or benefit of eligible income support recipients who rent in the private rental market. The LGA has previously taken steps to explore and improve housing affordability outcomes (the LGA established an Affordable Housing Working Group in late 2007). Providing low income renters with rent assistance should be further explored.

In considering the targeting of concessions and funding responsibilities of government, one should be mindful of the Henry Report's recommendation that a further more detailed review of Australia's broader concession system was needed. The Henry Report raised concerns about the effectiveness of concessions in targeting people with lower means and the potential regressive nature of some concessions. Importantly, the report noted that "continuing to provide concessions under existing arrangements may not be possible with an ageing population", and that "there is a strong case for rationalising the number of concessions as well as converting some into cash transfers or tax reductions" (p. 625).

One of the strengths of the current support arrangements under the Local Government Act *1999* is the ability for seniors to postpone a proportion of their rates. Recognising the asset-rich but income-poor nature of many senior households, these measures enable seniors to effectively leverage their housing wealth.

Recommendations

On the basis of the above discussion and analysis provided elsewhere in this report, we make the following recommendations:

- Advocate for a rise in the maximum concession of $190 available to pensioners and low income households. This would require amendments to the *Rates and Land Tax Remission Regulations 2009,* which fall under the *Rates and Land Tax Remission Act 1986.*
- Investigate options for providing ratepayers with more flexible payment arrangements (e.g. fortnightly or monthly payments) in order to spread the lumpy nature of council rate payments. More flexible arrangements should not unduly penalise ratepayers by some other means (e.g. interest payments). There may be advantages here for councils in terms of smoothing workloads.
- Promote the measures that allow seniors to postpone part of their council rates as a means for reducing council rates payments.
- Advocate for a review of the Australian concessions system, to be carried out by the Productivity Commission, as recommended by the Henry Report. The review would provide an opportunity for a more holistic assessment of the Australian concessions system on efficiency and sustainability grounds, and should address equity issues such as the appropriateness of providing housing affordability assistance for low income home owners versus low income renters.

One basis for determining the level of the initial rise in the rates concession would be the change in the Adelaide CPI since 2002. This methodology would imply a maximum concession of approximately $243 in 2010/11. While such a rise would not compensate for the level of real rates increases over this period, doing so would leave room for discretion at the council level in terms of providing additional support for ratepayers.

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