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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