



Australian Council of Social Service

11 December 2019

Mr David Thodey, AO
Chair
NSW Review of Federal Financial Relations
Email: FFRReview@treasury.nsw.gov.au

Dear Mr Thodey,

ACOSS welcomed the opportunity to discuss reform of the federal financial arrangements with you recently. This letter is our short submission to the Review. In short, we advocate:

- Tax reform at Commonwealth and State and Territory level to build a robust and fair revenue base for essential services. This includes linking reform of taxation of retirement incomes with service guarantees in health and aged care, broadening the income tax base, and shifting from Stamp Duties to broad-based Land Taxes.
- A new model of Commonwealth-State financial relations which assigns responsibility for universal service guarantees to the Commonwealth, and the design and implementation of human service programs to realise those guarantees to States and Territories.
- ACOSS does not support a shift from income to consumption taxes, as this would undermine equity in the tax system without improving its efficiency.
- We propose a shift away from 'pseudo-markets' in funding human service programs.

ACOSS and the COSS Network has a long-standing interest in the equitable and efficient funding of essential infrastructure and services through the federation.

In the late 1990s ACOSS advocated the assignment of revenues from any new tax on consumption to States and Territories to provide a robust, predictable source of funding for essential services, while opposing any increase in the overall share of regressive taxes in public revenues.

In 2015, the COSS Network published a framework for reform of Commonwealth-State financial relations which is available here:

https://www.acoss.org.au/wp-content/uploads/2016/11/COSS-federation-framework_FINAL.pdf

The key objectives of our proposed reforms in this area have been consistent: to ensure that governments have the revenues they need to fund essential services both now and in the future, that those revenues are raised in a fair and efficient way, and that the system encourages different levels of government to work together effectively to design and implement a set of universal service guarantees that meet the needs of the community.



Be clear about the tough fiscal choices we face

There is no doubt that the community faces tough choices if we are to ensure that essential services are adequately funded. Our analysis of the 2019 Commonwealth Budget's expenditure estimates and projections (link below) indicates that there is no room for large personal tax cuts over the next four years, if services are to be adequately funded. The budget projects the slowest real annual growth in Commonwealth social expenditures for the last 50 years. Along with the Budget's economic parameters, this is simply not realistic. https://www.acoss.org.au/wp-content/uploads/2019/06/ACOSS_future-of-services_briefing-note_updated.pdf

The existing suite of health, education and community services and social security payments does not meet the community's most basic needs. ACOSS has identified severe, structural deficiencies in key programs on which people with low incomes rely. These gaps in services are well known, and include: social security payments such as Newstart Allowance that impoverish people, under-resourced mental and dental health services, a bias in health services towards acute care and neglect of preventive programs, the lack of funding certainty and self-determination for Aboriginal and Torres Strait Islander communities, chronic under-investment in social housing, and unmet needs in social care.

The use of 'pseudo-markets' in human services is often touted as a cost-effective way to close gaps in services from employment assistance to disability services. Yet the Aged Care Royal Commission is correct to point out that an over-reliance on 'markets' in human services which treats users as 'customers' purchasing a 'product' undermines service quality. Experience in the vocational education and employment services systems shows that market-based service provision fractures local service networks, generates competitive pressures that lead providers to cut corners on quality, and ultimately leads to profit-taking by large providers that carve out monopoly positions. Further, the impact of detailed public regulation through service contracts has been to undermine the claimed 'flexibility' of outcome-based funding arrangements.

Tax reform for a robust revenue base

The first step in reforming federal-state financial arrangements is to ensure that governments have a secure, robust and fair revenue base to meet the community's needs. Australia is a low-taxing nation - with the sixth-lowest revenue-to-GDP ratio in the OECD - struggling to provide first-world services.



The reality is that over the next two decades, the public revenue share of GDP will need to increase. This should be achieved in a way that ensures those with ability to pay do so, and economic distortions are kept to a minimum.

At Commonwealth level, this can be achieved by broadening the income tax base to remove tax shelters such as discounted taxes on capital gains, the use of business and investment structures to avoid tax, and closing gaps in the Fringe Benefits Tax base.

Genuine tax reform is politically challenging. There is scope to link revenue-raising reforms to the provision of essential services, as successive governments have done through the Medicare Levy. One such option is to earmark revenue raised from reform of the tax treatment of superannuation post-retirement to service guarantees in health and aged care. This reform recognises that a secure and healthy retirement depends on more than an adequate income. It also depends on access to good-quality services when they are needed.

Our tax reform proposals at Commonwealth level are outlined in our 2019 Budget submission (link below). Our 2020 Budget submission will be completed soon.

<https://www.acoss.org.au/wp-content/uploads/2019/02/ACOSS-Budget-Submission-2019-20-FINAL-v2.pdf>

State and Territory tax bases should be restructured to lift revenue and improve efficiency. One of our main proposals is the progressive replacement of housing-related Stamp Duties with a broad-based Land Tax. As with many of our tax reform proposals, this is designed to change investment behaviour (in this case to improve housing affordability) as much as to raise revenue and improve revenue stability.

ACOSS opposes a shift in the overall tax base from income to consumption on the grounds that this would disproportionately impact people with low incomes and serve no economic or social policy purpose. Treasury modelling for the Commonwealth's 2015 tax reform white paper indicates that personal income and consumption taxes have very similar 'marginal excess burdens'. While the GST base is shrinking due to the exemptions for human services, incorporating those services in the tax base would merely 'churn' revenue from households to governments and back via health, education and community service funding programs.

Analysis undertaken for ACOSS (link below) demonstrates that a tax mix change of this kind would undermine equity, requiring an expensive compensation package for people with low incomes, sharply reducing any overall revenue gains. Instead, the present system which assigns GST revenues to States and Territories should continue.



https://www.acoss.org.au/wp-content/uploads/2016/11/Tax-Talks-5_effects-of-a-higher-GST-on-households_embargoed.pdf

Improve inter-governmental coordination

In the above federation reform briefing paper, the COSS network advocates a clearer division of labour between the Commonwealth and States and Territories in the funding and provision of universal essential services.

Clearly, some programs such as social security payments are best funded, managed and delivered by a single tier of government. Others, including most health education and community services, are a shared responsibility. Where responsibilities are shared, it makes sense to allocate functions in a way that takes advantage of the strengths of the different levels of government.

Since the Commonwealth has greater revenue-raising capacity (and this needs to continue to ensure that access to services is consistent across the country), and expertise in designing entitlement-based programs, the Australian Government is well placed to provide individual service guarantees for affordable access to good-quality services.

Since the States and Territories have greater capacity in the design and provide human service programs, it makes sense to allocate to them the role of converting national service guarantees into funding programs and services on the ground. This is about policy development and program design as much as 'service delivery,' and much of the service delivery would be devolved to local community organisations. The mix of public and non-government service provision is best determined by State and Territory Governments, in dialogue with communities.

If well designed, this partnership model of Commonwealth-State collaboration in human services should ease long-standing problems such as confused and overlapping responsibilities and cost-shifting. Programs would be designed to achieve universal service guarantees in the most cost effective way.

Our experience in working with governments and community and business stakeholders to develop reform proposals in tax and fiscal policy tells us that there is broad support for a structural change, including in federal-state financial relations, if governments engage with the community in an open and systematic way. As we discussed, the [National Reform Summit](#) is a good example of this willingness to tackle the hard issues.



The stalling of all attempts at major tax reform in the last decade has been of deep concern to ACOSS and our members. At stake, is the future of the services and supports we all rely on. As such, your review of Federal Financial Relations is important and timely and we hope it advances public policy debate and reform momentum to create a more efficient, adequate, sustainable and equitable tax system.

I wish you the best in your efforts.

<X:\Organisation\CEO\Signatures - To Be Used Only With Permission\Jacqui Phillips.jpg>

Yours sincerely,

A handwritten signature in black ink, appearing to read "Phillips".

Jacqueline Phillips

Acting CEO

ACOSS