

CHAPTER 10: CONCESSIONS AND SUBSIDIES

Key findings of the Committee:

- 10.1** Tax expenditures are tax concessions which include tax free thresholds and can also take the form of exempting or applying a lower rate, deductions or rebate of a tax for a certain class of taxpayer, activity or asset. Of the estimated tax expenditures for 2008-09 that can be costed (including thresholds) amounting to \$4.628 billion, the largest components related to land tax exemptions (estimated at \$1.551 billion or 33.5 per cent) and payroll tax exemptions (estimated at \$2.635 billion or 56.9 per cent).
- 10.2** The budget for 2008-09 contains concessions amounting to \$1.294 billion (\$1.225 billion, 2007-08) in terms of reducing the price of a good or service for particular groups in the community, which enable these groups to access and/or purchase important amenities like energy, health and transportation at a cheaper rate or zero cost. Around 1.3 million low income Victorians benefit from concessions and concession-related programs, representing more than 25 per cent of the population and 33 per cent of households.
- 10.3** The health sector continues to be the largest provider of concessions to the Victorian community, with an estimated value of \$506 million to be granted in 2008-09 (39.1 per cent of the value of all concessions expected to be granted in the year). In comparison, the estimate for 2007-08 of \$486 million comprised 39.7 per cent of all concessions.
- 10.4** In terms of government-wide output initiatives, the budget provides an extra \$25.7 million in 2008-09 (\$73.8 million over four years to 2011-12) for various concession-related programs which contribute to the Department of Human Services' Energy, Water and Municipal Rates Concessions and Ambulance Emergency Services outputs.
- 10.5** In recognising the impact that climate change is having on the community, including increasing both the general cost of living and the cost of utilities, various changes to concessions and hardship programs have been included in the budget. These measures are designed to assist the most vulnerable members of the community to afford water, energy and other essential services.
- 10.6** Of the major concession categories, the increase of \$52.0 million (or 20.2 per cent) in the estimated value of concessions connected with energy, municipal rates and water and sewerage charges to be granted between 2006-07 and 2008-09 showed the greatest movement.
- 10.7** The Committee noted that one of the areas where existing concessions had been extended in the 2008-09 Budget related to the provision of utility relief in water to low income earners. Under this budget initiative, the government allocated \$42.0 million over four years to make water and sewerage charges more affordable to those members of the community on low incomes.

- 10.8** In terms of the government's Early Bird Fare initiative whereby, to ease congestion during the busy AM peak period, funding has been provided for two years at \$6.0 million per annum to provide free travel to passengers completing their travel prior to 7.00am, the Committee is of the view that that the Department of Transport should reveal in its annual report for 2008-09 information on the effectiveness of this budget initiative.
- 10.9** The Committee believes there is scope for a greater level of transparency in the budget papers in terms of disclosing concessions (and quantifying revenue foregone) that are implicit in nature such as:
- land tax and payroll tax exemptions granted (e.g. to non-government schools);
 - fees waived to particular bodies (e.g. departments waiving rental charges to their statutory authorities); and
 - measures connected with regulatory reform.
- 10.10** The Committee maintains that, based on the magnitude of funds involved, the spread of concessions among numerous concession types and the number of recipients throughout Victoria, there is scope for a more expanded form of disclosure of the various concessions in an explicit manner and related material in the budget papers. For example, the budget papers should break down the aggregate value of concessions among concession categories by quantifying the value of concessions to be granted according to particular types of concessions such as municipal rates, free emergency ambulance transport for concession holders and the multi-purpose taxi program.

10.1 Introduction

While Chapter 9 covers the wide topic of departmental income as well as specific revenue initiatives contained in the budget relating to tax relief measures which translate to revenue foregone, this chapter covers the fiscal parameters of the budget dealing with other elements of revenue foregone in the form of concessions and subsidies. This year the Committee placed an emphasis on exploring various issues connected with the topic of forgoing the collection of revenue and raising awareness in this social area of the budget involving ‘hand-outs’ in the form of concessions granted to certain groups of the community. The Committee was also interested in understanding the nature and extent of subsidies, both explicit and implicit. In particular, the Committee focussed on gaining an understanding of the specific concessions and subsidies contained in the budget, the extent of revenue foregone and any changes from that of the prior year.

In contrast, in reviewing last year’s budget estimates, the Committee focused on examining economic-related aspects of the budget dealing with productivity improvement where savings or efficiencies could be achieved in the provision of services.

Concessions and subsidies can take various forms which comprise the following:

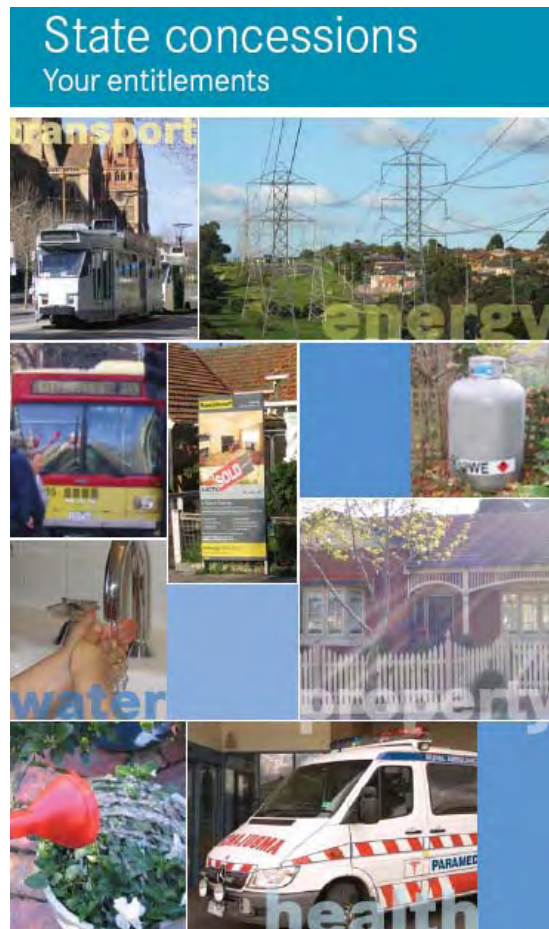
- tax expenditures that relate to tax concessions granted to certain taxpayers, activities or assets which represent a deviation from the normal taxation treatment. This includes tax free thresholds and can also take the form of exempting or applying a lower rate, deductions or rebate of a tax for a certain class of taxpayer, activity or asset (this excludes generally applying marginal tax rates). Tax incentives reported in the 2008-09 Budget that have implications for tax expenditures include an adjustment of approximately 10 per cent to stamp duty on land transfer thresholds and a reduction in the payroll tax rate to 4.95 per cent;¹⁸¹ and
- a direct budget outlay in the form of payments in the nature of a subsidy (e.g. education maintenance allowances paid to low-income families to assist them with meeting the cost of educating their children) or a means-tested reduction in government charges where revenue is foregone to the state. In this latter case, concessions enable certain groups in the community (e.g. consumers possessing a Commonwealth pension card or a health care card) to access and/or purchase important amenities like energy, health and transportation at a cheaper rate or zero cost.¹⁸²

The Committee examined the budget papers in respect to concessions and subsidies, questioned Ministers about the extent of these and included in its questionnaire, specific questions as to the extent of such concessions and subsidies. Generally speaking, there was a positive response by Ministers to requests by the Committee for full accounting for such concessions and subsidies. However, the committee notes that definitional issues do occur when trying to determine whether program expenditure is involved or whether expenditure should be classified as a subsidy (e.g. payments for public transport). Over time, the Committee will seek a clearer definition and accounting of all subsidies.

A diagrammatic illustration of State concessions, published by the Department of Human Services, is shown over.

¹⁸¹ Budget Paper No.4, 2008-09 *Statement of Finances*, pp.207-08

¹⁸² *ibid.* p.212



Source: Department of Human Services, *State Concessions – Your entitlements, January 2008*, published by the Concessions Unit, Office for Children, accessed at www.cyf.vic.gov.au/, 23 July 2008

10.2 Approach adopted by the government to revenue foregone by the state in the form of concessions and subsidies contained in the budget

At the 2008-09 Budget Estimates hearing, the Committee was interested in learning from the Treasurer about any strategic approaches by the government in the budget to fiscal matters dealing with concessions and subsidies and associated revenue foregone by the state. The Treasurer advised the Committee that:¹⁸³

“I guess our general approach in these areas is such that transparency is clearly a critical area here. When government is providing either social support or economic support in any of these areas on concessions, it is good to have them all in the one place in the budget context so we have transparency. It is also good so you can have an informed policy debate on whether these are an appropriate way for the government to provide revenue or not. I guess the opening comment is what we do should be transparent and it should be clear for the community, for PAEC, for the Parliament, for everyone to see where they are.”

¹⁸³ Mr J Lenders, MLC, Treasurer, 2008-09 Budget Estimates hearing, transcript of evidence, 13 May 2008, pp.4-5

... Similarly on concessions, the government forgoes more than a billion dollars in revenue or makes deliberate contributions to low-income earners and disadvantaged Victorians to assist them with concessions. So the point in response to your questions is: they are all codified here and set out in chapter 5 of budget paper 4. But as far as government policy goes, there is no change to government policy, but greater transparency in these areas is always of particular use in an informed community, and that is what openness and transparency in government is about.

We reported in chapter 5 of budget paper 4 that it is a challenge for government to show support for this area of the community, whether it be for schools, whether it be for principal place of residence, whether it be for primary producers that is not often evident in the community, which is clearly in our budget papers.”

The Treasurer confirmed before the Committee that concessions have been extended in the budget and particular exemptions granted to various bodies, namely concessions connected with utility relief in water and exemptions granted to non-government schools for the payment of land tax and payroll tax.¹⁸⁴

In terms of other exemptions granted, the Committee was also interested to hear from the Minister of Education at the budget estimates hearing that:¹⁸⁵

“The only area where the department does not collect revenue to which it is entitled is in respect of rental costs to its statutory bodies that occupy space within the department’s buildings. The notional rent provided is recorded as a service, and the buildings are occupied free of charge. At a total of \$1.9 million for last year — in other words, \$1.9 (million) if they were rented on a commercial basis, and we are talking about the VCAA, which is the curriculum assessment authority, et cetera, the VRQA (the Victorian Registration and Qualifications Authority) and other bodies. That \$1.9 million represents less than 0.03 per cent of the department’s total expenditure for the year.”

¹⁸⁴ Mr J Lenders, MLC, Treasurer, 2008-09 Budget Estimates hearing, transcript of evidence, 13 May 2008, p.5
¹⁸⁵ Hon. B Pike MP, Minister for Education, 2008-09 Budget Estimates hearing, transcript of evidence, 14 May 2008, p.5

10.3 Tax Expenditures

A summary of estimated tax expenditures for 2008-09 that can be costed (including thresholds) compared to the estimates for the prior two years is shown in table 10.1. The largest components of the estimated tax expenditures that can be costed (including thresholds) for 2008-09 of \$4.628 billion comprised revenue foregone that emanated from the granting of land tax exemptions (\$1.551 billion or 33.5 per cent) and payroll tax exemptions (\$2.635 billion or 56.9 per cent).

Table 10.1: Tax expenditures that can be costed (including thresholds) 2006-07 to 2008-09

Description	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate	2008-09 Distribution
	(\$ million)	(\$ million)	(\$ million)	(%)
Land tax exemptions	1,596	1,289	1,551	33.5
Payroll tax exemptions	2,415	2,613	2,635	56.9
Congestion levy tax exemptions	42	41	43	0.9
Gambling tax exemptions	75	67	67	1.5
Motor vehicle tax expenditures	68	75	79	1.7
Other stamp duties exemptions (a)	134	150	253	5.5
Total estimated tax expenditures	4,330	4,235	4,628	100.0

Notes: (a) Principally stamp duty on land transfer

Source: Budget Paper No.4, Budget Paper No.4 Statement of Finances 2007-08, pp.162-163; and Budget Paper No.4 Statement of Finances 2008-09, pp.209-210

10.4 Concessions including subsidies contained in the budget

The Committee noted that the budget papers, which classified major concessions by category (such as a public transport category and an energy, municipal rates, water and sewerage category), disclosed the percentage of total concessions attributable to each category and the estimated value for each category. Table 10.2 shows the breakdown of concessions by category in terms of value and proportion of total concessions (these figures include the cost of administration). The health sector is the largest provider of concessions to the Victorian community, with an estimated value of just over half a billion dollars to be granted in 2008-09 (almost 40 per cent of the value of all concessions expected to be granted in the year). The Committee also noted that of the major concession categories, the increase in the estimated value of concessions connected with energy, municipal rates and water and sewerage charges to be granted between 2006-07 and 2008-09 of \$52.0 million (or 20.2 per cent) showed the greatest movement. The distribution of concessions among the various categories as a proportion of the total concessions has remained similar for the past three years.

**Table 10.2: Concessions by category
2006-07 to 2008-09**

Category	2006-07 Estimate (\$ million)	2007-08 Estimate (\$ million)	2008-09 Estimate (\$ million)	2008-09 Distribution (%)
Energy, municipal rates, water and sewerage	257	281	309 (a)	23.9
Education	179	188	200 (b)	15.4
Health	449	486	506 (c)	39.1
Hardship assistance	16	21	22	1.7
Transport (e)	236	249	258 (d)	19.9
Total of items estimated	1,137	1,225	1,294	100.0

- Notes:
- (a) Consists of concessions primarily associated with the Winter Energy Program (\$127.8 million), municipal rates (\$77.0 million) and water and sewerage charges (\$101.2 million)
 - (b) Includes the Education Maintenance Allowance (\$60.7 million), School Start Bonus (\$40.2 million), Pre-School Subsidy (\$12.2 million), Conveyance Allowance (\$28.7 million) and the school bus service (a free service) for students attending special schools (\$38.0 million)
 - (c) Includes Ambulance – Community Service Obligation program (\$302 million), Dental Services (\$109.9 million) and Community Health programs (\$87.6 million)
 - (d) Includes public transport concessions (\$189 million), funding for the Multi-Purpose Taxi Program (approximately \$40 million) and the discount on Transport Accident Commission premiums for pensioners. Concessions on behalf of this latter item are included in the estimated net revenue of \$61.7 million to be foregone during 2008-09 from collections administered by VicRoads on behalf of the Victorian Government.
 - (e) Does not include the general government subsidy for public transport which is classified as a program expenditure. In relation to this item, the Department of Infrastructure reported in its 2006-07 Annual Report in Note 29 to the financial statements that the department has entered into a number of contracts with private operators to provide Victoria's tram, train and bus services. Under the terms of these agreements, the department provides subsidies for transport services and capital commitments. At 30 June 2007, rail commitments (exclusive of GST) were estimated to be in the order of \$3.5 billion and bus commitments (exclusive of GST) were estimated to be in the order of \$615 million.

Source: Budget Paper No.4, 2008-09 Statement of Finances, pp.213-214, responses to departmental questionnaires and questions on notice; and
Department of Infrastructure 2006-07 Annual Report, pp.142-144, Note 29

The Committee noted that concession categories can be broken down among various types of concessions (see table 10.3).

Table 10.3: Concession categories characterised according to types of concessions

Concession category	Types of concessions			
	Electricity and gas usage	Municipal rates	Water and sewerage charges	Other small concessions relating to energy use
Energy, municipal rates, water and sewerage				
Education and Early Childhood Development	Education maintenance allowance	Student transport allowance	School start bonus	Pre-school concessions
Health	Free emergency ambulance transport for concession holders	School, community and specialist dental services	Optical concessions	Community health programs
Hardship assistance programs	Utility relief	Capital grant scheme (a)	Trustee services	Domestic grain rebate
Transport	Discount on Transport Accident Commission premiums for pensioners	Multi-purpose taxi program	Particular transport concessions	Car registration discount

Note: (a) From 1 July 2008, the Capital Grant Scheme is to be renamed the Home Wise: Appliance and Infrastructure Grant

Source: Budget Paper No.4, 2008-09 Statement of Finances, p.214

A dissection of some of these types of concessions according to particular concession programs or recipient groups is shown in table 10.4.

Table 10.4: Concession types characterised according to particular purposes/recipient groups

Concession Type	Particular Concession Programs/Recipient Groups										
	Winter Energy Concession	Non-Mains Winter Energy Conc.	Off Peak Conc.	Electricity transfer fee waiver	Service to Property Charge Conc.	Multiple Sclerosis Conc.	Life Support Concessions.	Winter Energy Concession	Audiology	Hot water services/generators	Children under 15 years of age
Electricity and gas usage and other related concessions											
Community health		Dietetics	Occupational Therapy	Physio.	Podiatry	Nursing	Family Planning				Women's health
Capital grant scheme		Refrigerators	Washing machines	Leaking water/gas pipes	Wall heaters	Upright stoves	Water tanks				Toilets
Particular transport concessions		Primary and secondary students Tertiary students	Victorian Seniors Card holders Pensioner Concession Card holders	Victorian Health Care Card holders	War Veterans/Widows TPI War Veterans (a) WW1 Widows (a)	People who are legally blind (a)	Companions of people with disabilities (a)				

Note: (a) free travel

Source: Department of Human Services, 'State Concessions – Your entitlements', January 2008, published by the Concessions Unit, Office for Children, accessed at www.cyf.vic.gov.au/, 23 July 2008; and

Mr D Andrews MP, Minister for Health, 2008-09 Budget Estimates hearing, transcript of evidence, 13 May 2008, p.5; and

Hon. L Kosky MP, response to questions on notice received 7 July 2008, budget estimates hearing, 14 May 2008, p. 1

In terms of government-wide output initiatives, the budget provides an extra \$25.7 million in 2008-09 (\$73.8 million over four years to 2011-12) for various concession-related programs. In contributing to the Department of Human Services' Energy, Water and Municipal Rates Concessions and Ambulance Emergency Services outputs, this government-wide initiative will:¹⁸⁶

- increase the water and sewerage concession cap;
- modify other concession programs to assist concession card holders;
- provide additional funding for the provision of free ambulance services to eligible concession card holders; and
- provide additional funding for the *Home Wise Program* under the *Climate Change Package*.

Given the magnitude of concessions contained in the budget (\$1.3 billion for 2008-09),¹⁸⁷ the Committee supports full disclosure of government policy and the various components of this item in the budget papers. This is particularly relevant as around 1.3 million low income Victorians benefit from concessions and concession-related programs, which represents more than 25 per cent of the population and 33 per cent of households.¹⁸⁸

The Committee is of the view that based on the magnitude of the overall quantum of funds involved, the spread of concessions together with concession-related programs and the number of recipients throughout Victoria, there is justified scope for calling for a more expanded form of disclosure of the state's expected concessions program in the budget papers. In the opinion of the Committee, the presentation of the budget papers could be further improved by the inclusion of a dedicated chapter covering social and economic support provided to low income earners, the elderly and other disadvantaged or vulnerable groups of society that discloses a clear differentiation between the state's concession program and outlays in the nature of subsidy payments. Many Victorians, for example, are unaware that the State Government provides certain concessions for rates, or water and electricity. Public awareness of this should be improved.

The Committee supports the dedicated section covering concessions of an explicit nature that is contained in the budget papers. However, in terms of those concessions of an implicit nature, the Committee believes there is scope for a greater level of transparency in the budget papers about taxation exemptions granted (e.g. to non-government schools) and fees that are waived to particular bodies or groups (e.g. where rental costs are not charged by departments to its statutory authorities) and quantification in the budget papers in relation to the extent of revenue foregone in these circumstances. The Committee also maintains that in those cases where regulatory reform designed to cut red tape results in the reduction in revenue, the effect on the budget of the extent of revenue foregone should also be quantified in the budget.

Recommendation 16:

In terms of fully disclosing the extent of revenue foregone to the state arising from the granting of concessions, including tax exemptions in the form of tax expenditures, the Department of Treasury and Finance ensure the budget papers contain a greater dissection quantifying the value of taxation exemptions granted, fees waived to particular groups and income not collected due to regulatory reform.

¹⁸⁶ Budget Paper No.3, *2008-09 Service Delivery*, pp.290 and 292

¹⁸⁷ Budget Paper No.4, *2008-09 Statement of Finances*, p.213

¹⁸⁸ Ms. L Neville MP, Minister for Community Services, 2008-09 Budget Estimates hearing, 22 May 2008, slide presentation no.11

- Recommendation 17:** **The Department of Treasury and Finance expand the concessions section of the budget papers by disclosing a more comprehensive breakdown of the estimates that reveals:**
- (a) **the various types of concessions (e.g. electricity and gas usage, municipal rates and water and sewerage charges) associated with each category of concession;**
 - (b) **the estimated number of Victorians/households expected to benefit from these concessions and related programs;**
 - (c) **the actual number of recipients of concessions for the most recent completed year against estimates for that year;**
 - (d) **explanations for major variations between the expected number of recipients for the prior year and the current budget estimate; and**
 - (e) **estimated outlays in the form of subsidies presented in a consolidated form across government.**

- Recommendation 18:** **The State Government increase awareness among Victorians of the extensive nature of concessions it provides.**

10.5 Extended concessions awarded in the budget - Water and Sewerage Concessions

In acknowledging the impact that climate change is having on the community, including both increasing the general cost of living and the cost of utilities, the Victorian government announced several key changes to concessions and hardship programs in the budget to assist the most vulnerable members of the community to afford water, energy and other essential services.¹⁸⁹

The Committee noted that one of these key changes involved the provision of \$42 million over four years to make water and sewerage charges more affordable to low-income earners. Under this initiative, the Water and Sewerage Concession cap was increased by 14.8 per cent from \$158.50 to \$182.0 from 1 July 2008. The Water and Sewerage Concession, which is available to Health Care Cardholders, Pensioner Concession Cardholders and Department of Veterans' Affairs Cardholders, provides a 50 per cent discount on water consumption, sewerage disposal and service charges up to the maximum cap.¹⁹⁰

¹⁸⁹ www.cyf.vic.gov.au/concessions/home/budget-announcement, accessed 23 July 2008, p.1

¹⁹⁰ Department of Human Services, 2008-09 State Budget fact sheet, *Improving utility affordability for low income Victorians*, accessed at www.esc.vic.gov.au/

At the budget estimates hearing in May 2008, the Committee was interested in exploring with the Minister for Community Services, why the increase in the cap is less than the expected increase in water charges of 17 per cent. The Minister explained to the Committee that the 14.8 per cent increase in the cap covers the predicted price rises in water and will continue to grow in line with the Consumer Price Index. The Minister also stated that:¹⁹¹

‘At the moment it is 14.8 per cent, which is indexed. We are still waiting on the final outcome of the decision by Essential Services Commission, at which point if any further adjustments need to be made they will be considered as part of future budget considerations.’

The Committee noted that the increase in the cap will in actual fact be higher than virtually all the price outcomes determined by the Essential Services Commission in June 2008 for water prices which ranged from a real price increase of 4.3 per cent (Lower Murray - urban) to 14.9 per cent (Gippsland Water) among the urban businesses.¹⁹²

10.6 New budget initiative - The Early Bird Fare Initiative

The Early Bird Scheme was implemented across all 15 metropolitan rail lines in April 2008 and provides free travel to passengers completing their travel prior to 7.00 am. The Early Bird Scheme trial, a new initiative for the 2008-09 Budget, is funded for two years at \$6.0 million per annum.¹⁹³

According to the budget papers, this initiative aims to help ease congestion during the busy AM peak period and also benefit those commuters unable to travel before 7.00 am.¹⁹⁴

The Committee believes that the Department of Transport should provide information in its annual report for 2008-09 on the effectiveness of this initiative.

Recommendation 19: **The Department of Transport provide in its annual report for 2008-09 relevant information relating to the effectiveness of the Early Bird Fare Initiative.**

¹⁹¹ Ms. L Neville MP, Minister for Community Services, 2008-09 Budget Estimates hearing, transcript of evidence, 22 May 2008, p.13

¹⁹² Essential Services Commission, *Overview of Final Decision on Water Prices*, Water Price Review – Final Decision, Fact Sheet 1, accessed at www.esc.vic.gov.au/

¹⁹³ Hon. L Kosky MP, Minister for Public Transport, *Response to questions on notice received 7 July 2008*, budget estimates hearing, 14 May 2008, p.2

¹⁹⁴ Budget Paper No.3, *2008-09 Service Delivery*, pp.322, 324