

4.1 COST OF LIVING STATEMENT

Overview

- On average, ACT residents have the highest incomes in Australia. The Territory has a relatively younger, healthier and more educated population. Unemployment is the lowest in the country, and the participation rate remains high.
- There are, however, households that do not fully share in the prosperity and benefits of a strong economy. Fair, efficient and sustainable revenue ensures that important services are able to be delivered to low income households and the broader community. It also allows for targeted assistance to be provided for those who need help.
- ACT Government taxation forms a small part of overall household costs. Per capita taxation as a proportion of gross household disposable income in the ACT is among the lowest in the country.
- A range of cost of living pressures are outside the influence of the ACT Government, including interest rate increases, effects of general market forces, and the decisions of independent pricing authorities.
- The Cost of Living Statement provides information on the impact of changes in major government and utility charges that impact directly on a household, and concessions available to offset these costs.
- Households can differ in their composition, circumstances and patterns of consumption. More targeted assistance is available through both ACT and Commonwealth Government programs for households needing greater support.
- In the 2012-13 Budget, the ACT Government has commenced a long term program to reform the Territory's taxation system. The goals of the reform are to make the system fairer, simpler and more efficient.
- The Cost of Living Statement should be read in conjunction with the Taxation Reform Plan, targeted assistance measures and information on the broad range of concessions available to households in Budget Paper No. 2.
- This Statement factors in revenue replacement measures which form part of the Government's Taxation Reform Plan but does not reflect some of the benefits to flow to households, including lower insurance fees.

Introduction

On average, the ACT has the highest standard of living in Australia, with a relatively younger, well educated and productive population. Average household incomes are around 20 per cent higher than the national average. There are, however, households that do not necessarily share in this prosperity.

The Government remains mindful of the pressures faced by those in our community, who are finding it hard to keep up with general cost of living increases.

Any increases to taxes and fees are made in the context of the actual costs incurred by the Government and ensuring stable revenue to fund core community services.

ACT Government taxation forms a small part of overall household costs. Per capita taxation as a proportion of gross household disposable income in the ACT is 5.2 per cent — among the lowest in the country — compared with 7.8 per cent nationally.

Many factors driving the cost of living are outside governments' control. Governments can best address the cost of living by helping create an economic environment that supports jobs and sustains services.

The ACT has one of the strongest economies in the country with the third highest economic growth, behind Western Australia and Queensland, at 2.8 per cent.

Unemployment is the lowest in the country at 3.3 per cent, and labour force participation is the second highest in the country at around 72.2 per cent.

The Government is committed to supporting households and families who, at times, find it difficult to meet general cost of living pressures. A range of concessions and assistance measures provide support to low income households that struggle to meet their expenses.

The 2012-13 Budget begins a reform program to improve the fairness, simplicity and efficiency of the ACT taxation system, while investing in essential community services and infrastructure. Further details on the program are provided in Chapter 3.

Targeted Assistance Strategy

An Expert Panel was convened by the Government to advise on how best to meet emerging financial pressures on low and middle income households and those facing temporary financial hardship. The Targeted Assistance Strategy developed by the Panel contains recommendations for the short, medium and longer term to create a more inclusive, fair and equitable Canberra community.

Initiatives in the Targeted Assistance Strategy include:

- increasing flexibility in the payment of all ACT Government fees, rates and fines;
- improving access to information on government and non-government assistance;
- supporting the availability of low-interest loan schemes for those experiencing temporary financial hardship;
- making earlier payments to families of secondary students to assist with back to school costs; and
- supporting households to purchase energy-efficient white goods, and make minor energy efficiency upgrades to houses.

Taking into account the Panel's recommendations, the ACT Government is now working with the business and community sectors to better target assistance to Canberrans in need.

A range of targeted measures designed to assist households facing financial pressures with the cost of living are being implemented through this Budget and are detailed in Budget Paper No. 2.

The No Interest Loan Scheme expands funding for community organisations to establish loan programs for people experiencing financial hardship and who are unable to access mainstream credit or cannot afford the interest on commercial loans.

Street Law, providing legal services to Canberra's homeless, is being continued.

Tax Reform Targeted Assistance Measures

The Home Buyer Concession Scheme's income eligibility increases from \$120,000 to \$150,000, with the concession targeted at the purchase of a new home or land for residential purchases.

The Pensioner Duty Concession Scheme's property value thresholds for concessional duty increase to \$570,250 for a full concession and up to \$715,000 for a partial concession. A full concession on land is available for blocks up to a value of \$300,000, and a partial concession for land up to \$403,000 for aged pensioners seeking to move to a more appropriate property.

The Rates Deferral Scheme's eligibility criteria are expanded in the 2012-13 with those over 65 eligible and properties currently valued above \$390,000.

The General Rates Rebate, available to eligible recipients, increases from \$481 in 2011-12 to \$565 in 2012-13.

Residential Land Tax, applied to all tenantable properties, is being made more progressive with a decrease of up to 16 per cent in the land tax payable for properties with an average unimproved value of up to \$400,000.

The Cost of Living Statement

This Cost of Living Statement provides information on the effect of direct taxes and fees on an ACT household and the concessions available to offset these costs. It is designed to highlight the impact of changes in major government and utility charges on a household.

In preparing this Statement the Government acknowledges that calculating the effect of taxes and fees for a single household can never capture the diversity of household formations in the community, and differing patterns of consumption.

This Statement details the impact of changes to the following taxes and fees:

- General Rates;
- the Fire and Emergency Services Levy;
- utility fees including for electricity, natural gas, water and sewerage;
- motor vehicle fees including for driver licences and registration; and
- public transport costs.

Further, detailed information on changes to taxes and fees is provided in Chapter 5.

The Household

The household referred to in this statement comprises two adults and two children with:

- a full-time and part-time adult income. This equates to \$123,570 in 2012-13¹;
- a mortgage on their home;
- two drivers and two vehicles with a tare weight between 1,155 to 1,504 kilograms. Both drivers hold five year licences with the cost spread equally over the years;
- one child using a four term school student concession bus pass to journey to and from school and an adult using a single full fare pass to travel to and from work every weekday; and
- consumption of 7,280 kilowatt hours of electricity, 47 gigajoules of natural gas² and 272 kilolitres of water.

The Government recognises that increases in charges and fees can have a disproportionate impact on some households and individuals, including the unemployed, students, pensioners, and low income families. It provides a range of concessions to assist with meeting everyday costs of living and to reduce the impact of taxes and fees on these households.

Household Impact — Changes in Select Costs

In 2012-13, it is estimated that around \$8,425 of an ACT's household income will be expended on the ACT Government taxes and fees detailed above. This is an increase of around 7.6 per cent, or \$641.58, on the overall cost of these taxes and fees for the household in 2011-12.

The increase needs to be viewed in the context of increases in income. The Wage Price Index is forecast to increase at 3.5 per cent in 2012-13. For the household referred to in this Statement, this means an increase in household income of around \$4,180 in 2012-13.

The increase also needs to be viewed in the context of the benefits of taxation reform. Taxation reform measures commencing in 2012-13 will deliver benefits to households which are not included in the statement.

The increase in income for the household described above is substantially larger than the increase in taxes and fees.

¹ Estimated gross household income is based on the latest available Full-time Average Weekly Ordinary Time Earnings data, Index indexed by the Wage Price of 3.5 per cent.

² The household is on an ActewAGL *Saver Plus Plan* for natural gas pricing.

Property Related Taxes, Fees and Charges

General Rates increase by \$122.79 (9.6 per cent) on average for all residential properties across the ACT in 2012-13 due to the reforms to the ACT taxation system to make it fairer, simpler and more efficient and incorporate the increased costs of municipal services.

As part of taxation reforms, duty on insurance has been abolished. Conveyance duty is being reduced over the next five years and abolished in twenty years time. The revenue for these taxes will be replaced through increases in General Rates.

The Fire and Emergency Services Levy increases by \$3.00 (2.9 per cent) due to the rising costs of providing fire and emergency services in the Territory.

The home in this statement is a standalone house in a suburb such as Weston or Kaleen.

Utilities

Utility charges in 2012-13 increase by \$460.87 (11.5 per cent) due to higher supply costs and the impact of the carbon price. Household compensation provided by the Commonwealth Government and ACT Government concessions will help offset the increases.

Motor Vehicles

Driver licence fees in 2012-13 increase by \$1.60 (2.6 per cent) to reflect the increased costs associated with transport related activities.

The vehicle registration fee increases by \$19.80 (3.5 per cent) in 2012-13 also reflecting these increased costs.

Compulsory Third Party Insurance fees remain unchanged in 2012-13 and are the subject of arbitration. As such these fees may be subject to change over the course of the coming financial year.

Public Transport

Public transport fares in 2012-13 increase by \$5.43 (2.5 per cent) for students and \$28.08 (2.6 per cent) for adults, reflecting growth in costs. In the previous year, fares decreased by around 4 per cent.

Table 4.1.1
Estimated Income for the Household¹

	2011-12 Estimated Income (\$)	2012-13 Increase (\$)	2012-13 Estimated Income (\$)	Percentage Change %
Gross Household Income²	119,390	4,180	123,570	3.5

Source: ACT Treasury

Notes:

1. The ACT household referred in the statement consists of one full-time and one part-time worker.
2. Estimated gross household income is based on the latest available Full-time Average Weekly Ordinary Time Earnings data, indexed by the Wage Price Index of 3.5 per cent.

Table 4.1.2
Estimated Impact of Select ACT Government Taxes and Fees on a Household 2012-13

Government Taxes and Fees	2011-12 Cost \$	2012-13 Increase \$	2012-13 Cost \$	Percentage Change %
Property				
General Rates ¹	1,276.17	122.79	1,398.96	9.6
Fire and Emergency Services Levy ²	101.80	3.00	104.80	2.9
Sub Total	1,377.97	125.79	1,503.76	9.1
Utility Charges³				
Electricity ^a	1,417.98	244.17	1,662.15	17.2
Natural Gas ^b	1,149.64	132.05	1,281.69	11.5
Water ^c	897.15	39.38	936.53	4.4
Sewerage ^d	555.39	45.26	600.65	8.2
Sub Total	4,020.16	460.87	4,481.03	11.5
Motor Vehicle Charges⁴				
Driver Licence Fee ^a	61.20	1.60	62.80	2.6
Vehicle Registration ^b	570.60	19.80	590.40	3.5
Road Rescue Fee ^c	32.00	0.00	32.00	0.0
Road Safety Contribution ^d	4.00	0.00	4.00	0.0
CTP Insurance ^e	1,053.20	0.00	1,053.20	0.0
Sub Total	1,721.00	21.40	1,742.40	1.2
Public Transport Fares⁵				
School Student ^a	217.36	5.43	222.79	2.5
Adult ^b	1,088.64	28.08	1,116.72	2.6
Sub Total	1,306.00	33.51	1,339.51	2.6
Total Expenditure	8,425.13	641.58	9,066.70	7.6

Source: ACT Treasury

Notes:

1. The increase in General Rates reflects revenue replacement for reforms to transaction taxes. The figure provides the average increase in rates. The reform includes improvement in progressivity of the rates system. As a result, properties with Average Unimproved Value below \$200,000 will have a reduction in General Rates. Compared to 2011-12, General Rates will reduce for around 24 per cent of the properties.
The increase in rates does not reflect the benefit from decreases in household costs from the phase out of transaction taxes.
2. Increases in the Fire and Emergency Services Levy reflect WPI rates and is due to the rising costs of providing fire and emergency services in the Territory.
3. Utility prices, excluding natural gas, are regulated by the Independent Competition and Regulatory Commission (ICRC) in the ACT. The Australian Energy Regulator is the economic regulator for covered natural gas pipelines.

Notes continued:

- 3a. Electricity prices for 2012-13 are based on the draft ICRC Electricity Pricing Decision released on 5 April 2012. ACT average electricity consumption was provided in the ICRC draft determination 2012 and is 7,280 kilowatt hours of electricity.
- 3b. Natural gas prices for 2012-13 are based on an estimated unit charge of \$27.27 per gigajoule excluding GST. Average natural gas consumption was provided by the ICRC and is 47 gigajoules per household.
- 3c. Water prices for 2012-13 are based on an estimated increase of the Consumer Price Index applied by the ICRC and 1 per cent. The CPI applied in 2012-13 is 3.39 per cent. Average water consumption was provided in the ACTEWAgI Annual Report 2010-11 and is 272 kilolitres per household.
- 3d. Sewerage prices for 2012-13 are based on an estimated increase of the Consumer Price Index applied by the ICRC of 3.39 and 4.76 per cent.
4. All charges for motor vehicles have been doubled due to the household having two cars and two drivers.
- 4a. The fee for a drivers licence assumes the cost of a five year licence is spread over five years.
- 4b. The registration cost is based on the cost to register a car with a tare weight of between 1,155 to 1,504 kilograms.
- 4c. The Road Rescue Fee remains at \$16.00 in 2012-13.
- 4d. The Road Safety Contribution remains at \$2.00 in 2012-13
- 4e. The Compulsory Third Party Insurance fee remains unchanged in 2012-13 and is the subject of arbitration. The fees may be subject to change over the course of the coming financial year.
5. Any changes to public transport fares in the ACT are effective from 1 January of each year. This has been factored into the figures presented in Table 4.1.1 with all figures calculated using half the cost of 2012 and half the cost of 2013 to calculate a total across the financial year.
- 5a. Adult fares are based on the cost of a fare multiplied by the fare cap of 36 fares per month.
- 5b. School student fares are set at a base concessional rate for students and are based on a 26 fare per month cap for the four school terms.

The Benefits of Taxation Reform

The Government's Taxation Reform Plan sets out a long term and staged approach to making the ACT taxation system fairer, simpler and more efficient.

The Reform Plan will abolish duty on insurance over the next five years and conveyance duty over a twenty year period. These reforms are likely to have flow on benefits for households. The revenue from these taxes will be replaced through increases to General Rates.

Only charges and fees that impact directly on a household are covered in this Statement. While General Rates apply directly to a household, increases in 2012-13 include revenue replacement to reduce and eventually abolish both conveyance and insurance duty. These increases should be offset by the benefits that are likely to flow to households.

The estimated average savings per household from the abolition of duty on insurance will be \$34 in 2012-13. The tax will reduce by 20 per cent every year, and savings will increase commensurately.

Average household savings by income quintile are provided in the table below.

Table 4.1.3
Average Household Savings from Abolishing Insurance Duty

Gross household income per annum	Savings 2012-13
\$	\$
0 to 51,000	21
51,001 to 87,700	27
87,701 to 124,500	32
124,501 to 181,000	37
181,001 and above	50
Estimated average savings per household in 2012-13	34

Source: ABS Cat No. 6503.0 and ACT Treasury

The phasing out of conveyance duty will result in Homebuyers saving around 12 per cent on a property valued at up to \$500,000 in 2012-13, increasing to 34 per cent in 2015-16.

Table 4.1.4
Change in Duty Payable from Phasing Out Conveyance Duty

Property value \$'000	Duty Payable 2011-12 (\$)	Duty Payable 2012-13 (\$)	Savings (%)
200	5,500	4,800	13
300	9,500	8,550	10
400	15,000	13,300	11
500	20,500	18,050	12
600	26,250	23,550	10
700	32,000	29,050	9
800	37,750	35,050	7
900	43,500	41,550	5
1,000	49,250	48,050	2

Source: ACT Treasury

Concessions

Projected growth in ACT household incomes in 2012-13 will help offset increases in the taxes and fees detailed in Table 4.1.1. However, there are a range of concessions and assistance programs available for low income households.

Concessions and welfare assistance programs help offset cost of living pressures for households with low incomes. These apply differently to households depending on their circumstances. The assistance available through concessions is reviewed and adjusted on a regular basis.

Eligibility for concessions is based on incomes and asset tests, determined by the Commonwealth. Persons eligible for concessions are generally holders of Commonwealth Health or Pensioner cards. There are also a number of age related concessions through the Seniors Card which qualify a holder for public transport and motor vehicle registration concessions.

The maximum concessions that are available to offset the taxes and fees in this statement have been assumed.

A range of Commonwealth concessions and assistance program are also available to offset eligible households living costs. These rebates and payments have not been included in the table on concessions in this Statement. This Commonwealth assistance is adjusted to meet increases in costs.

Assistance to Households through Concessions

It is estimated that in 2012-13, around \$2,680 in ACT Government concessions are available to eligible households to offset the costs of the taxes and fees that are detailed in this Statement.

The ACT Government provides concessions to offset taxes and fees that impact directly on households. It is estimated that in 2012-13, ACT Government concessions for General Rates, the Fire and Emergency Services Levy, utility charges, driver licence and motor vehicle registration fees, and public transport fares, will offset 41 per cent of the costs.

Concessions offered to offset the cost of taxes and fees which have a direct impact on an ACT household in 2012-13 are detailed as follows.

Property Related Taxes, Fees and Charges

Pensioner Concession Card holders receive a rebate of up to 50 per cent on General Rates capped at \$565.00. The cap on the General Rates Rebate will increase by \$84 in 2012-13. Pensioners are also able to defer payment of General Rates.

A 50 per cent rebate is available for Pensioner Concession Card holders on the Fire and Emergency Services Levy.

Utilities

Pensioner and Health Care Card holders are able to access a 68 per cent rebate on the cost of the electricity consumed, capped at \$374.82 annually.

A concession of 68 per cent is available on the water supply charge of \$99.55.

Motor Vehicles

Pensioner Concession Card holders do not pay a driver licence fee. Concessions are also available for the unemployed and Health Care Card holders.

Pensioner Concession Card holders do not pay the vehicle registration fee. A range of concessions are also available to Health Care Card holders, seniors, and owners of electric and certified gas vehicles.

Public Transport

Pensioner, Health Care, and ACT Seniors Card holders and tertiary students receive a 50 per cent reduction on ACTION MyWay fares at a cost of \$1.32 per trip.

School students travel on a fare which is set at a base concessional rate. Students from low income households who meet eligibility criteria are able to access free public transport to and from school on weekdays during the term.

Students with disabilities who meet eligibility criteria are able to access free transport to and from school.

As these concessions only apply to a small number of eligible school students, they have not been included as an offset in the table following.

Table 4.1.5
Offsets to Taxes and Fees in the Cost of Living Statement Provided by ACT Government
Concessions 2012-13¹

Government Taxes and Fees²	2012-13 Cost	Maximum Concession Available	Actual Cost after Concession	Reduction in Cost
	\$	\$	\$	%
Property				
General Rates	1,398.96	565.00	833.96	-40.4
Fire and Emergency Services Levy	104.80	52.40	52.40	-50.0
Sub Total	1,503.76	617.4	886.36	-41.1
Utility Charges				
Energy	1,662.15	374.82	1,287.33	-22.6
Water	936.53	67.88	868.65	-7.2
Sewerage	600.65	408.44	192.21	-68.0
Sub Total	3,199.34	851.15	2,348.19	-26.6
Motor Vehicles Charges³				
Driver Licence Fee	62.80	62.80	0.00	-100
Vehicle Registration	590.40	590.40	0.00	-100
Sub Total	653.20	653.20	0.00	-100
Public Transport Fares⁴				
Adult Fares	1,116.72	558.36	558.36	-50.0
Sub Total	1,116.72	558.36	558.36	-50.0
Total	6,473.02	2,680.11	3,792.91	-41.4

Source: ACT Treasury

Notes:

1. The maximum available concessions to offset the taxes and charges detailed in this statement have been assumed in Table 4.1.4. These concessions are available to eligible households and are detailed at www.assistance.act.gov.au.
2. This table does not include costs associated with Compulsory Third Party Insurance, for which a concessions is not available.
3. Vehicle registration concessions do not apply to Compulsory Third Party Insurance costs of \$526.60, the Road Rescue Fee of \$16 and the Road Safety Contribution of \$2 which did not change between 2011-12 and 2012-13.
4. Student bus fares are not included in this table as they are already at a concessional rate.