Co-operatives, Commons and Communities Canberra

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Submission to Inquiry into the future sustainability of health funding in the ACT

To: Kate Harkins
Committee Secretary
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Co-operatives Commons and Communities Canberra (Co-ops Canberra) is an unincorporated community group which recently emerged from SEE-Change ACT. It was formed to investigate and encourage forms of organisation which fit within our habitats natural limits, and promote equality. It was formed in response to the increased interest in, and the increased availability of information about such methods and organisations being practiced around the world.

One of our primary aims is to increase the awareness of these sometimes novel methods of organisation, leading to this submission.

We welcome this opportunity to make a submission to the inquiry.

The Legislative Assembly Inquiry into health funding asks for comment on eight different points. The sixth one is:

Funding the future capital needs of the health system in the ACT;

This submission outlines how the ACT community can provide capital to the ACT health system without the cost of paying rent on capital (Interest paid to the bank on borrowings).

We would like the ACT Government to consider an alternative borrowing framework, whereby the community is enabled to voluntarily contribute to ACT health services, in return for a fixed annual discount on their tax, for a fixed period.

In essence, some taxpayers will voluntarily co-ordinate themselves through a co-operative structure (The proposed Canberra Health Funding Co-operative) to provide a source of interest free money to the government, specifically for health infrastructure.

The money supplied is interest free, but provides an annuity to the lenders through a discount on their tax in the future.

The ACT Government will avoid the cost of renting the capital (borrowing) from traditional interest bearing sources, thereby reducing their expenses.

The ACT Taxpayers who provide the money will get a return on their prepayment via an annual discount on taxes payable, over a fixed period - for example, this could be a 6% annual tax discount for 15 years.

The interest bearing option requires taxpayers to pay significantly more money than a project is worth, while the taxpayer prepayment/discounts option provides the twin benefits of less money required for a project, and a reduced tax burden for the individual taxpayers involved in the plan.

The proposal will materially reduce the costs involved in funding health infrastructure.

Kevin Cox
Mark Spain
Scotty Foster

Reducing the Cost to Taxpayers of Funding Health Infrastructure

The following submission outlines how Canberra taxpayers can reduce the cost of Health Infrastructure.

This proposal is likely to be different from anything the government has previously considered, and due to its unconventional nature may appear at first glance to be somewhat outlandish. Due to the reductions in funding coming from the federal level, we believe that innovative methods of organizing ourselves are warranted. We ask that you take the time to assess the concept on its merits, rather than on its cohesion with conventional practice.

The outline below indicates how it works but will raise many questions. The answers will require considerable effort on the part of Co-ops Canberra and rather than make a detailed comprehensive proposal we ask the government to enter into a conversation so that we can expand and better explain the proposal.

Borrowing money is expensive

Today, the most common way to fund the capital needs of public infrastructure, including the health system, is for the government to borrow money. Repayments on these loans are paid for by ACT taxpayers, using taxes they will pay in future years. We call this arrangement “renting money” and it is expensive.

Borrowing one hundred million dollars at a 4% interest rate calculated over 30 years would result in the government paying back a total of $173M, of which $100M is to repay the money borrowed, and $73M is interest - a rental charge for the use of that $100M. The taxpayers pay $5.77M per year for 30 years to pay back the loan and its interest.

An alternative to the expensive option of renting money is for the ACT government to invite ACT taxpayers to pre-pay their taxes. This is to be arranged as an interest free source of money and will save the ACT community substantial sums of money.

How will this work?

A group of volunteer ACT taxpayers prepays a portion of their taxes for use as capital to build health facilities. The ACT government pays no interest on the money. The volunteer taxpayer receives a tax discount in return for making the prepayments.

For example, the ACT government needs $100M to spend on Capital Works.

If we were to assume that a group of taxpayers voluntarily prepaid $100M of their taxes, they might receive a tax discount of 6% annually, for 15 years.

The volunteer taxpayers will still have the usual assessments of their taxes made. They will use their prepayments, including the discount, as a form of tax credit which is used to pay their usual taxes.

The tax income forgone by the government would be $45M.

An independent Funding Co-operative would remove the need for the ACT government to operate the scheme directly.

The funding co-op looks after all the individual transaction details and the fiscal accountability, so that the government does not have to deal with thousands of individuals, only the Funding Co-op.
The Funding Co-op would manage the collection of prepayments as well as the supporting governance and operational aspects of the scheme.

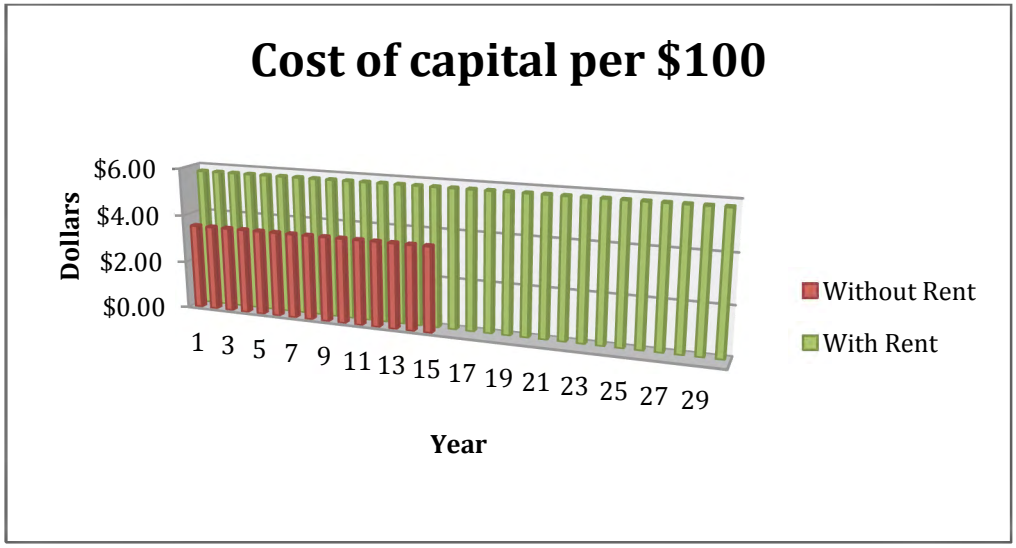
The voluntary, open co-operative governance structure is important ensure that, and to show all ACT taxpayers that this is their community owned institution, acting in the best interests of all ACT citizens.

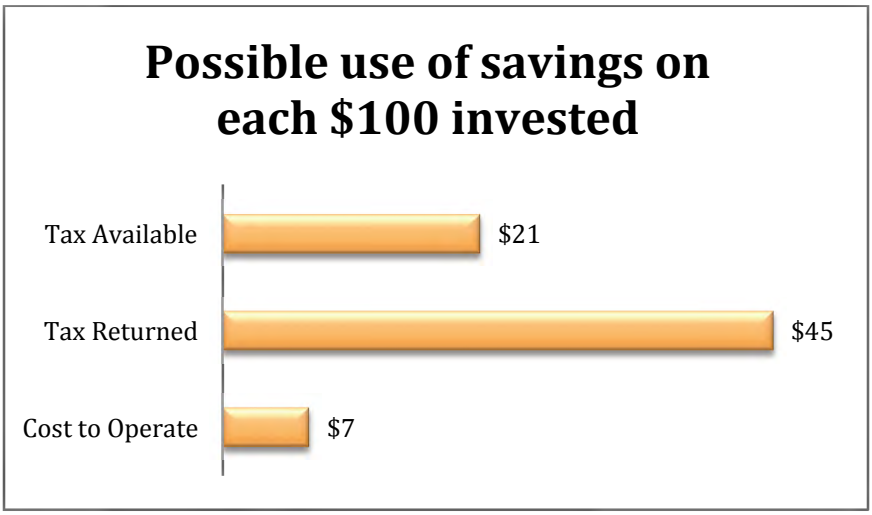
Savings

The gross savings made through avoiding payment of interest is $73M. Of this, $45M is returned to the volunteer taxpayers via the discount, $7 million is spent administering the new system and $21M of tax, which would otherwise have been spent on interest, is now available for other government expenditure.

By the adoption of an innovative source of funding, the ACT Government will have an extra $21M to spend, and the whole of the ACT community will benefit from that extra spending.

Funding capital expenditure with the prepayment of taxes means that, for each $100 in capital expenditure, the ACT Government will have another $21 available to spend.





Implementation of Prepayments

Co-ops Canberra, in partnership with the Pingala Co-operative, (http://pingala.org.au/about-us/) is deploying a similar scheme for prepayment of electricity generated by roof-top solar panels - a "Renewable energy funding Co-op".

The governance and operation of this scheme is applicable as a model for a Canberra Health Funding Co-op.
The exact details of this model are not yet finalised, and so cannot be reliably included in this submission. We will make the details available as soon as they are finalised.

The ACT government would need to support the establishment of the Funding Co-op and agree to the prepayments of tax.

We understand that this is only a brief introduction to a novel approach to raising capital, and are very happy to field questions about the model.

This submission recommends the ACT Government fund Co-ops Canberra to prepare a detailed business case and operational plan for an ACT Health Funding Co-op for the ACT Legislative Assembly to consider.