

SUBSIDIES – ALCOHOL PRODUCTS

— ASSESSMENT RESULTS

- 1 This working paper describes how the Commission estimated the subsidies each State would provide on alcohol products if it provided the average level of subsidies. The development of the assessment method is discussed in Volume 5 of the 2004 Review Working Papers.

DESCRIPTION OF THE CATEGORY

- 2 The category comprised low alcohol wine, cellar door sales and other alcohol subsidies provided by the States to hoteliers, licensed clubs and wholesale and retail liquor suppliers. Other alcohol subsidies also include the reimbursement of administrative costs incurred by alcohol sellers.
- 3 Until 30 June 2002, the States provided subsidies for the sale of low alcohol beer. On 1 July 2002, the Commonwealth introduced a National Excise Scheme for low alcohol beer to replace State subsidies with a uniform rate. The Commonwealth deducted from each State's budget balancing assistance (BBA) an amount commensurate with its current subsidies, indexed for inflation, for as long as each State received BBA.
- 4 The Commonwealth now fully funds the scheme.
- 5 The terms of reference for the 2003 Update asked the Commission to take this new arrangement into account. Consequently, the Commission removed subsidies for low alcohol beer from the average expenses for all years and changed the assessment accordingly.
- 6 Table 1 shows the average expenses for the last six financial years. In 2006-07, the average expense of \$0.78 per capita represented 0.01 per cent of the total gross average expenses.

Table 1 Subsidies – Alcohol Products, average expenses, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average expenses (\$pc)	1.55	1.46	1.46	1.17	0.71	0.78
% of total State average expenses	0.03	0.03	0.03	0.02	0.01	0.01

DEVELOPMENTS SINCE THE 2007 UPDATE

7 There were no new developments affecting the assessment since the last update.

ASSESSMENT METHOD

Description of the assessment

8 The Subsidies – Alcohol Products assessment for the 2008 Update was undertaken using three components:

- low alcohol wine subsidies
- cellar door subsidies; and
- other subsidies.

9 For the cellar door sales component, a factor based on the standard subsidy rate was used in the assessment. The low alcohol and other subsidies components were assessed on an equal per capita (EPC) basis.

Assessment structure

10 Table 2 summarises the assessment structure for the 2008 Update.

Table 2 Subsidies - Alcohol Products, assessment structure for the 2008 Update, 2006-07

Expense component	Component weight	Factors	Basis of calculation
Low alcohol wine subsidies	3.41	Low alcohol wine subsidies	Equal per capita
Cellar door subsidies	89.83	Cellar door subsidies	Standardised subsidies per capita converted to factor This is the equivalent to calculating actual per capita because cellar door subsidies have a standard subsidy rate.
Other subsidies	6.76	Other subsidies	Equal per capita

Calculating the category factor

11 Table 3 summarises the components, component weights and factors assessed for this category for the last year of the 2008 Update. It shows the calculation of the category factor for 2006-07.

Table 3 Subsidies – Alcohol Products, derivation of category factor, 2008 Update, 2006-07

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Low alcohol wine subsidy (component weight = 3.41 %)								
Low alcohol wine subsidy	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
A Wgtd comp factor	0.03410	0.03410	0.03410	0.03410	0.03410	0.03410	0.03410	0.03410
Cellar door subsidy (component weight = 89.83 %)								
Cellar door subsidy	0.56728	0.75539	0.00000	1.30157	4.47577	6.71116	0.00000	0.00000
Component factor	0.56728	0.75539	0.00000	1.30157	4.47577	6.71116	0.00000	0.00000
B Wgtd comp factor	0.50959	0.67857	0.00000	1.16921	4.02061	6.02869	0.00000	0.00000
Other subsidy (component weight = 6.76 %)								
EPC	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
C Wgtd comp factor	0.06759	0.06759	0.06759	0.06759	0.06759	0.06759	0.06759	0.06759
Category factor	0.61128	0.78026	0.10169	1.27090	4.12231	6.13038	0.10169	0.10169

Note: For each component, the component factor is calculated using the formula in the following paragraph. The weighted component factor is the component factor multiplied by the component weight. This is then population weighted to ensure that the sum of assessed expenses equals average expenses.

Category factor is the sum of the weighted component factors. It equals A + B + C .

12 The category factor was calculated as follows:

category factor = cellar door subsidies + low alcohol wine subsidies + other subsidies

low alcohol wine subsidies = 0.0341 [low alcohol wine subsidies]

cellar door subsidies = 0.8983 [cellar door subsidies]

other subsidies = 0.0676 [other subsidies]

13 In each case, the contribution to the category factor was calculated as the component weight (the percentages in the table) multiplied by the component factor (the bracketed terms in the formulas). Each component's contribution to the category factor was scaled to ensure the sum of assessed expenses equalled average expenses.

RESULTS FOR 2006-07

14 Table 4 shows, for 2006-07, the actual, average and assessed expenses per capita and the assessed cost of providing services ratios. The assessed cost of providing services ratio is equivalent to the category factor shown in Table 3.

Table 4 Subsidies – Alcohol Products, assessment results, 2006-07

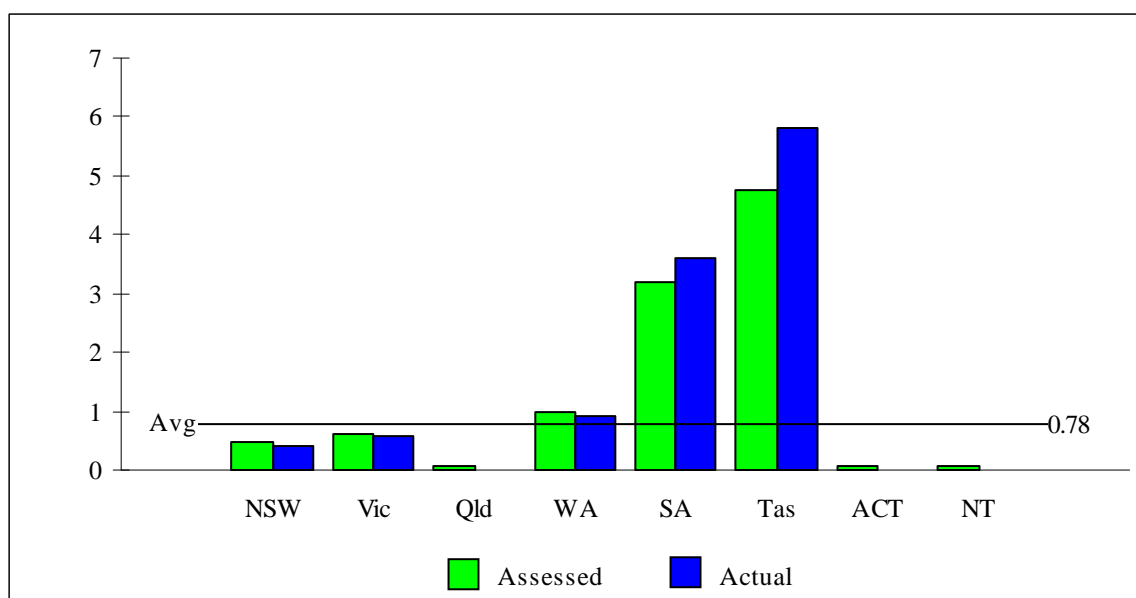
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses	0.40	0.59	0.00	0.91	3.60	5.80	0.00	0.00	0.78
Assessed expenses	0.47	0.61	0.08	0.99	3.20	4.76	0.08	0.08	0.78
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio (a)	61.13	78.03	10.17	127.09	412.23	613.04	10.17	10.17	100.00

(a) The assessed cost of providing services ratio is the ratio of assessed to average expenses per capita.

15 Table 10 at the end of the working paper summarises the results of the assessment. It shows the average, actual and assessed expenses for each State for all years of the 2008 Update.

16 Figure 1 illustrates the actual, average and assessed expenses per capita for Subsidies — Alcohol Products for 2006-07.

Figure 1 Subsidies – Alcohol Products, expenses per capita — assessed, actual and average, 2006-07



CONTRIBUTION TO GST REVENUE DISTRIBUTION

17 Table 5 shows the category’s contribution to the distribution of GST revenue and health care grants (hereafter GST revenue) implied by the 2008 Update. It also shows the contribution of each factor and component.

Table 5 Subsidies – Alcohol Products, contribution of assessment to GST revenue distribution, 2008 Update

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cellar door subsidy									
Cellar door subsidy	-2.7	-0.8	-4.2	1.9	6.1	0.3	-0.4	-0.2	8.3
Component factor	-2.7	-0.8	-4.2	1.9	6.1	0.3	-0.4	-0.2	8.3
Low alcohol wine subsidy									
Low alcohol wine subsidy	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.2
Component factor	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.2
Other subsidies									
Other subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Component factor	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Redistribution from EPC resulting from the 2008 Update assessment									
	-2.7	-0.7	-4.3	1.9	6.1	0.3	-0.4	-0.2	8.2

Note: The redistribution due to the component factors includes the effect of interactions between factors. Therefore, the component factor figure may not equal the sum of its factors' redistribution.

Differences from an equal per capita assessment

18 The category distribution of grants was close to actual expenses per capita (APC) reflecting the growing relative importance of cellar door subsidies in total subsidies, which are effectively assessed APC. Cellar door subsidies are distributed largely in line with — in per capita terms — the major wine producing States of Western Australia and South Australia. The low alcohol wine subsidies component reflects an average over five years that includes remaining low alcohol wine subsidies until 2002-03. The factor has been assessed EPC since 2003-04.

CHANGES SINCE THE 2007 UPDATE

Major changes in this update

19 The change in GST distribution between the 2007 and 2008 Updates was small, totalling \$1.5 million. Most of the expenses in the Subsidies on Alcohol Products category are assessed based on an actual per capita basis (cellar door subsidies). There has been a general trend by states in reducing the level of alcohol subsidy expenditure which has reduced the importance of the category. In addition state spending patterns have changed which has altered the importance of cellar door subsidies and shifted the redistributions of GST.

Effect of assessment on the distribution of GST revenue

20 Table 6 shows the distribution of GST revenue resulting from the assessments in the 2007 Update and the 2008 Update. It also shows the sources of the changes.

21 Changes in the distribution of GST revenue between the 2007 Update and the 2008 Update were brought about because the Commission:

- used revised financial data in the average expenses and other revised data in factor calculations for the years 2001-02 to 2005-06; and
- replaced 2001-02 average expenses and factors with those of 2006-07 to move forward the five-year period on which GST revenue distribution was based. Moving the five-year period forward in this way ensures the assessments reflect recent trends in State priorities on the services provided and recent trends in State demographics, and economic circumstances on the relative costs of those services.

Table 6 Subsidies – Alcohol Products, effect of assessment on GST revenue distribution, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-3.2	-0.4	-4.8	2.5	6.7	0.0	-0.4	-0.2	9.2
Effect of revising category averages and factors for 2001-02 to 2005-06									
Category average	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Category factors	-0.1	-0.1	-0.1	0.0	0.2	0.0	0.0	0.0	0.2
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	-0.1	-0.1	-0.1	0.0	0.3	0.0	0.0	0.0	0.3
Effect of replacing 2001-02 category averages and factors with those for 2006-07									
Category average	0.6	0.0	0.8	-0.5	-1.1	0.0	0.1	0.0	1.6
Category factors	-0.2	-0.4	-0.4	-0.5	0.5	1.1	0.0	0.0	1.5
Interactions	0.1	0.3	0.2	0.3	-0.3	-0.7	0.0	0.0	1.0
Total	0.5	-0.1	0.7	-0.6	-0.9	0.4	0.1	0.0	1.7
Redistribution from EPC resulting from the 2008 Update assessment (a)	-2.7	-0.7	-4.3	1.9	6.1	0.3	-0.4	-0.2	8.2
Total effect of revisions and updating (b)	0.5	-0.2	0.5	-0.6	-0.6	0.4	0.1	0.0	1.5

(a) Using the same pool and populations that were used to calculate the 2007 Update redistribution.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

22 Compared with an equal per capita (EPC) assessment, the 2008 Update redistributed \$8.2 million away from New South Wales, Victoria, Queensland, the ACT and the Northern Territory to the other States.

23 Table 7 shows the changes in GST revenue attributable to changes in each factor arising from both revisions over the period 2001-02 to 2005-06 and replacing 2001-02 data with 2006-07 data.

Table 7 Subsidies – Alcohol Products, effect of assessment on GST revenue distribution by factor, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cellar door subsidy									
Cellar door subsidy	0.4	-0.2	0.3	-0.4	-0.7	0.4	0.0	0.0	1.2
Low alcohol wine subsidy									
Low alcohol wine subsidy	0.1	0.0	0.2	-0.2	0.0	0.0	0.0	0.0	0.3
Other subsidies									
Other subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

24 The main reasons for the changes in GST revenue distribution between the two updates are explained in more detail in the following sections.

Changes due to revising average expenses and factors for years 2001-02 to 2005-06

25 **Revising average expenses.** For this category only one minor revision was made to South Australia’s expenses in 2005-06 (Table 8), which was too small to have an observable effect on the redistribution.

Table 8 Subsidies – Alcohol Products, Average expenses used in the 2007 and 2008 Updates

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2007 Update		1.55	1.46	1.46	1.17	0.71	0.78
2006 Update	1.27	1.55	1.46	1.47	1.17	0.69	
Difference		-	0.00	0.00	0.00	0.02	-

26 **Revising category factors.** Revisions were made to States’ cost of providing services ratio. The revisions to data reflected corrections made to rates of, and expenditure on, cellar door subsidies. This resulted in the GST revenue being redistributed from New South Wales, Victoria and Queensland to South Australia as shown in Table 6.

Changes in State circumstances — replacing 2001-02 with 2006-07 data

27 Table 9 shows the actual expenses and implied costs of service provision for 2001-02, the year that drops out of the assessment period, and 2006-07, the year that comes in, for the 2008 Update assessment.

Table 9 Subsidies – Alcohol Products, actual expenses and assessed cost of providing services, 2001-02 and 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses									
2001-02	1.07	1.55	0.06	2.37	6.25	2.28	0.21	1.60	1.55
2006-07	0.40	0.59	0.00	0.91	3.60	5.80	0.00	0.00	0.78
	%	%	%	%	%	%	%	%	%
Change between 2000-01 and 2005-06									
	-63.08	-61.73	-100.00	-61.66	-42.46	153.90	-100.00	-100.00	-49.89
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Assessed expenses									
2001-02	1.03	1.50	0.46	2.74	5.35	1.85	0.18	0.85	1.55
2006-07	0.47	0.61	0.08	0.99	3.20	4.76	0.08	0.08	0.78
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio									
2001-02	66.62	97.07	29.82	177.22	345.59	119.72	11.94	54.78	100.00
2006-07	61.13	78.03	10.17	127.09	412.23	613.04	10.17	10.17	100.00

- 28 **Replacing average expenses.** Since 2001-02, State spending on this function has decreased by 49.89 per cent while the GST pool grew by 43.9 per cent. So, replacing the 2001-02 average expenses with 2006-07 average expenses has led to a reduction in the size of the category's influence on GST redistribution. It has reduced the GST distribution to States assessed to have above average cost of providing services ratios (Western Australia and South Australia). It has increased the GST distribution to the other States, particularly New South Wales and Queensland which both have assessed costs well below 1.0.
- 29 **Replacing category factors.** The assessed cost of providing services increased between 2001-02 and 2006-07 in South Australia and Tasmania as shown in Table 9. As a result, replacing the 2001-02 factors with 2006-07 factors increased the GST shares of those States by a total of \$1.5 million. The shares of the other States were reduced or unchanged.
- 30 The observed changes were largely due to South Australia decreasing its alcohol subsidy expenditure at a slower rate than other states and Tasmania increasing its expenditure in 2006-07. This meant that the amount South Australia and Tasmania spent increased relative to other States.

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Table 10 Assessment of expenses, Subsidies – Alcohol Products

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Expenses		1.46		1.46		1.17		0.71		0.78
New South Wales										
Assessed difference	- 3.742	-0.56	- 2.048	-0.31	- 2.307	-0.34	- 1.193	-0.18	- 2.068	-0.30
Expenses - Assessed	5.944	0.89	7.748	1.16	5.578	0.83	3.630	0.53	3.252	0.47
Actual	5.520	0.83	6.786	1.01	5.094	0.76	3.086	0.45	2.711	0.40
Victoria										
Assessed difference	0.241	0.05	- 0.299	-0.06	- 0.998	-0.20	- 1.124	-0.22	- 0.881	-0.17
Expenses - Assessed	7.368	1.51	6.955	1.40	4.881	0.97	2.493	0.49	3.129	0.61
Actual	7.066	1.44	6.160	1.24	4.600	0.92	2.371	0.47	3.062	0.59
Queensland										
Assessed difference	- 4.196	-1.11	- 3.881	-1.00	- 3.831	-0.97	- 2.542	-0.63	- 2.883	-0.70
Expenses - Assessed	1.289	0.34	1.772	0.46	0.802	0.20	0.334	0.08	0.326	0.08
Actual	0.000	0.00	1.401	0.36	0.539	0.14	0.000	0.00	0.000	0.00
Western Australia										
Assessed difference	2.059	1.06	2.465	1.25	1.710	0.85	0.607	0.30	0.438	0.21
Expenses - Assessed	4.882	2.52	5.346	2.72	4.052	2.03	2.055	1.01	2.053	0.99
Actual	4.979	2.57	4.854	2.47	3.888	1.94	1.892	0.93	1.889	0.91
South Australia										
Assessed difference	6.172	4.04	4.311	2.81	6.264	4.05	4.900	3.14	3.820	2.42
Expenses - Assessed	8.394	5.50	6.560	4.27	8.075	5.22	6.009	3.85	5.043	3.20
Actual	9.901	6.49	8.932	5.81	8.901	5.76	6.794	4.35	5.672	3.60
Tasmania										
Assessed difference	0.036	0.08	0.142	0.30	- 0.257	-0.53	- 0.308	-0.63	1.957	3.98
Expenses - Assessed	0.728	1.53	0.846	1.76	0.311	0.64	0.039	0.08	2.339	4.76
Actual	1.000	2.11	1.155	2.40	0.712	1.47	0.460	0.94	2.852	5.80
Australian Capital Territory										
Assessed difference	- 0.331	-1.02	- 0.433	-1.33	- 0.354	-1.08	- 0.209	-0.63	- 0.235	-0.70
Expenses - Assessed	0.141	0.43	0.044	0.14	0.031	0.09	0.027	0.08	0.027	0.08
Actual	0.085	0.26	0.020	0.06	0.009	0.03	0.000	0.00	0.000	0.00
Northern Territory										
Assessed difference	- 0.238	-1.20	- 0.257	-1.28	- 0.226	-1.11	- 0.131	-0.63	- 0.148	-0.70
Expenses - Assessed	0.052	0.26	0.037	0.18	0.013	0.07	0.017	0.08	0.017	0.08
Actual	0.246	1.23	0.000	0.00	0.000	0.00	0.000	0.00	0.000	0.00

Note: Refer to Attachment A of the 2008 Update, Relative Fiscal Capacity of States for how these figures are compiled.