

FIRST HOME OWNERS SCHEME — ASSESSMENT RESULTS

- 1 This working paper describes the expenses assessment for the First Home Owners Scheme and provides information on its impact on the GST revenue distribution for the 2007 Update. The assessment method is discussed in Volume 4 of the 2004 Review Working Papers.

DESCRIPTION OF THE CATEGORY

- 2 The First Home Owners Scheme category comprises one-off payments of \$7000 to first home owners to offset the impact of the introduction of the GST. The States agreed to make these payments as part of the Intergovernmental Agreement (IGA) which accompanied the introduction of the GST. The eligible owner had either to buy a house, enter into a binding contract or commence building in the case of owner builders, on or after 1 July 2000. Assistance was not means tested.
- 3 This category contains no Specific Purpose Payments and excludes the Commonwealth Additional Grant to those First Home Owner Scheme recipients purchasing a newly constructed dwelling, which applied from March 2001 to June 2002. The category also excludes other State concessions provided to first home buyers.
- 4 Table 1 shows the average expenses for the last six financial years. In 2005-06, the average expenses of \$49.00 per capita represented 0.81 per cent of total State average expenses.

Table 1 First Home Owners Scheme, average expenses, 2000-01 to 2005-06

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Average expenses (\$pc)	53.11	71.48	47.92	39.62	44.10	49.00
% of total State average expenses	1.09	1.39	0.90	0.73	0.77	0.81

ASSESSMENT METHOD

Description of the assessment

5 The First Home Owners Scheme assessment was assessed as actual per capita. This is because the policies of the States are identical and the number of payments made are not within the control of State governments. This is the same approach as was used in the 2006 Update, whereby:

- actual expenses for each State were divided by the State’s population; and
- the result for each State was divided by the result for Australia to get the factor for each State.

Assessment structure

6 Table 2 summarises the assessment structure for the 2005-06 year of the 2007 Update. There is only one component and one factor.

Table 2 First Home Owners Scheme, assessment structure, 2007 Update, 2005-06

Expense component	Component weight	Factors	Basis of calculation
First Home Owners Scheme	100.00%	First home owners scheme	Actual per capita

Calculating the category factor

7 Table 3 shows the calculation of the category factor for 2005-06.

Table 3 First Home Owners Scheme, derivation of category factor for the 2007 Update, 2005-06

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
First home owners scheme (component weight = 100 %)								
First home owners scheme	0.86579	1.18579	0.92046	1.28904	0.88049	0.76602	0.99752	1.02475
Component factor	0.86579	1.18579	0.92046	1.28904	0.88049	0.76602	0.99752	1.02475
A Wgtd comp factor	0.86579	1.18579	0.92046	1.28904	0.88049	0.76602	0.99752	1.02475
Category factor	0.86579	1.18579	0.92046	1.28904	0.88049	0.76602	0.99752	1.02475

Note: Component factor rebased so that the average is 1.00000. Category factor = (A).

8 The category factor was calculated as follows:

$$\text{Category factor} = \text{First Home Owners Scheme factor}$$

RESULTS FOR 2005-06

- 9 Table 9 at the end of this working paper summarises the results of the assessment. It shows the actual and assessed expenses for each State, as well as average expenses, for all years of the 2007 Update.
- 10 Table 4 shows actual, average and assessed expenses per capita and the assessed cost of providing services ratio for the assessment in 2005-06. The assessed cost of services provision ratios are equivalent to the category factors shown in Table 3.
- 11 Figure 1 illustrates the per capita assessed, actual and average expenses for the First Home Owners Scheme for 2005-06. In that year, assessed/actual expenses per capita in Victoria and Western Australia were above the average level of expenses per capita, those for the ACT and the Northern territory were close to average, while those for the other States were below average.

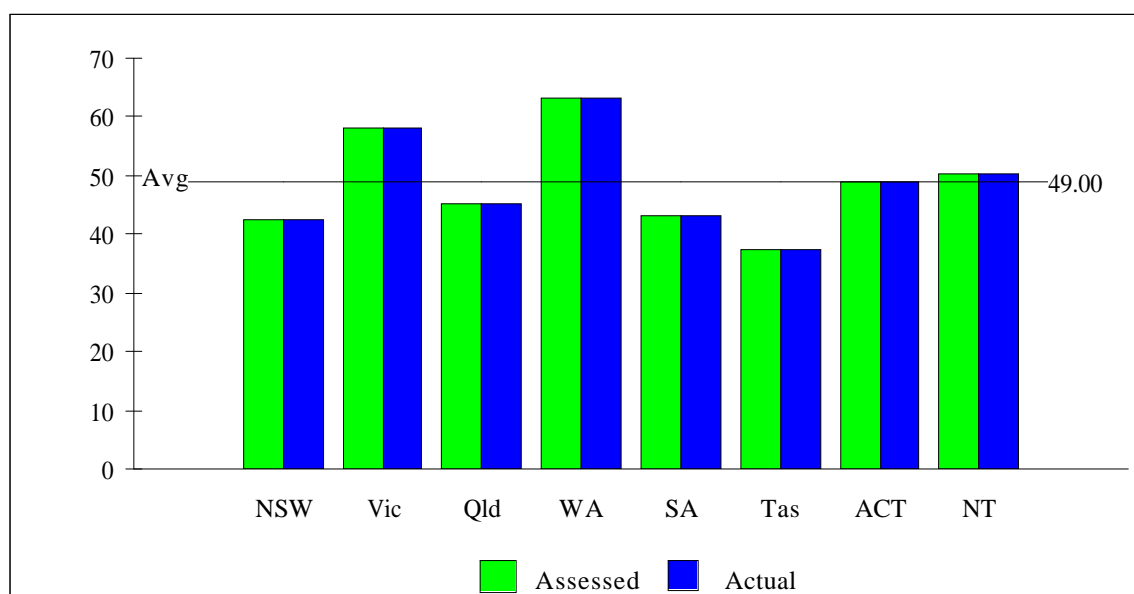
Table 4 First Home Owners Scheme, assessment results, 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses	42.42	58.10	45.10	63.16	43.14	37.53	48.88	50.21	49.00
Assessed expenses	42.42	58.10	45.10	63.16	43.14	37.53	48.88	50.21	49.00
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio (a)	86.58	118.58	92.05	128.90	88.05	76.60	99.75	102.48	100.00

Note: ACT expenses may include municipal expenses

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

Figure 1 First Home Owners Scheme, gross expenses per capita — assessed, actual and average, 2005-06



CONTRIBUTION TO GST REVENUE DISTRIBUTION

12 Table 5 shows the category’s contribution to the distribution of GST revenue and health care grants (hereafter described as GST revenue) implied by the 2007 Update assessment.

Table 5 First Home Owners Scheme, contribution of assessment to GST revenue distribution, 2007 Update

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
First home owners scheme	-46.1	10.4	17.3	26.5	-6.8	-0.2	0.0	-1.0	54.1
Component factor	-46.1	10.4	17.3	26.5	-6.8	-0.2	0.0	-1.0	54.1
Redistribution from EPC resulting from the 2007 Update assessment	-46.1	10.4	17.3	26.5	-6.8	-0.2	0.0	-1.0	54.1

Differences from an equal per capita assessment

13 Table 5 shows that, compared with an equal per capita (EPC) assessment, the 2007 Update redistributed \$54.1 million away from New South Wales, South Australia, Tasmania and the Northern Territory to Victoria, Queensland and Western Australia. The redistribution away from these States reflects their lower than average expenses across the five years of the 2007 Update.

CHANGES SINCE THE 2006 UPDATE

14 This category is assessed on an actual per capita basis. Changes in GST shares therefore reflect changes in State spending and revisions to State expense data. There have been no revisions to State expense data. The large redistribution among the States between updates has resulted from large changes in the pattern of State spending between 2000-01 and 2005-06. Overall, the category moved almost the same from EPC in the 2007 Update as it did in the 2006 Update but the States that have gained from the assessment have changed.

Effect of assessment on the distribution of GST revenue

15 Table 6 shows the distribution of GST revenue resulting from the assessments in the 2006 Update and the 2007 Update. It also shows the sources of the changes.

16 Changes in the distribution of GST revenue between the 2006 Update and the 2007 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 2000-01 to 2004-05; and
- replaced 2000-01 average expenses and factors with those of 2005-06 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 regarding services provided and recent trends in State demographic, and economic circumstances which affect the relative costs of those services.

Table 6 First Home Owners Scheme, effect of assessment on GST revenue distribution, 2006 Update to 2007 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 2006 Update assessment (a)	-49.4	-4.2	26.5	23.7	0.8	2.6	1.2	-1.2	54.8
Effect of revising category averages and factors for 2000-01 to 2004-05									
Category average	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Category factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.1
Effect of replacing 2000-01 category averages and factors with those for 2005-06									
Category average	4.0	1.6	-1.9	-1.1	-1.8	-0.5	-0.4	0.1	5.6
Category factors	-1.0	19.0	-10.7	5.5	-8.5	-3.3	-1.2	0.3	24.7
Interactions	0.3	-6.0	3.4	-1.7	2.7	1.1	0.4	-0.1	7.8
Total	3.3	14.5	-9.2	2.7	-7.6	-2.8	-1.2	0.3	20.8
Redistribution from EPC resulting from the 2007 Update assessment (a)	-46.1	10.4	17.3	26.5	-6.8	-0.2	0.0	-1.0	54.1
Total effect of revisions and updating (b)	3.3	14.6	-9.2	2.7	-7.6	-2.8	-1.2	0.3	20.9

(a) Assuming same pool and a constant population.

(b) The total redistributed amount shows the change in the amount redistributed among the States between the 2006 Update and the 2007 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

17 Compared with the 2006 assessment, the 2007 Update assessment redistributed \$20.9 million from Queensland, South Australia, Tasmania and the ACT to New South Wales, Victoria, Western Australia and the Northern Territory. The main reasons for the changes in GST revenue distribution were as follows.

Changes due to revising average expenses and factors for years 2000-01 to 2004-05

18 Table 7 shows that there were no revisions to the average expenses for 2000-01 to 2004-05. As the First Home Owners Scheme assessment was assessed using the actual per capita

method, this means that there were also no revisions to category factors. All changes between the 2006 and 2007 Updates were therefore due to replacing 2000-01 with 2005-06 data. This is discussed in the next section.

Table 7 First Home Owners Scheme, average expenses used in the 2006 and 2007 Updates

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2007 Update		53.11	71.48	47.92	39.62	44.10	49.00
2006 Update	40.93	53.11	71.48	47.92	39.62	44.10	
Difference	-	0.0	0.0	0.0	0.0	0.0	-

Changes in State circumstances — replacing 2000-01 with 2005-06 data

19 Table 8 shows the actual expenses and assessed costs of service provision for 2000-01, the year that drops out of the assessment period, and 2005-06, the year that comes in, for the 2007 Update assessment.

Table 8 First Home Owners Scheme, actual expenses and assessed cost of providing services, 2000-01 and 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses									
2000-01	46.56	49.71	58.34	58.98	66.43	65.11	66.22	49.36	53.11
2005-06	42.42	58.10	45.10	63.16	43.14	37.53	48.88	50.21	49.00
	%	%	%	%	%	%	%	%	%
Change between 2000-01 and 2005-06	-8.88	16.89	-22.69	7.10	-35.05	-42.35	-26.19	1.71	-7.74
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Assessed expenses									
2000-01	46.56	49.71	58.34	58.98	66.43	65.11	66.22	49.36	53.11
2005-06	42.42	58.10	45.10	63.16	43.14	37.53	48.88	50.21	49.00
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio									
2000-01	87.66	93.59	109.85	111.04	125.08	122.59	124.68	92.95	100.00
2005-06	86.58	118.58	92.05	128.90	88.05	76.60	99.75	102.48	100.00

Note: ACT expenses may include municipal expenses

20 **Replacing average expenses.** Between 2000-01 and 2005-06, per capita average expenses fell by 7.7 per cent. This contrasts with an increase in the per capita GST pool of 43.3 per cent. The category therefore became less important to the calculation of relativities. Replacing average expenses resulted in a \$5.6 million redistribution of GST revenue to New South Wales, Victoria and the Northern Territory and away from the other States.

- 21 ***Replacing category factors.*** Because this is an actual per capita assessment, the change in category factors reflects actual expense patterns in the States. Victoria, Western Australia and the Northern Territory spent more per capita on this scheme in 2005-06 than in 2000-01. New South Wales, Queensland, South Australia, Tasmania and the ACT spent less. In 2000-01, Queensland, Western Australia, South Australia, Tasmania and the ACT spent more than average on the scheme. In 2005-06 Victoria, Western Australia and the Northern Territory spent more than the average. The 2005-06 cost of providing services ratios for these three States were also higher than their 2000-01 ratios. Replacing the category factors therefore increased their shares of GST revenue — by \$24.7 million. Replacing the category factors reduced the shares of the other States. The sizeable redistribution stems from the volatility of actual expense patterns.

This Working Paper was prepared by the Expense — Health and Welfare section of the Commonwealth Grants Commission. If you have any questions about its content please contact Anthony Nichols on (02) 6229 8858 or anthony.nichols@cgc.gov.au.

A handwritten signature in black ink, reading "Anthony Nichols". The signature is written in a cursive style and is positioned above the date.

Date: 23/2/07

Table 9 Assessments - First Home Owners Scheme

	2001-02		2002-03		2003-04		2004-05		2005-06	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Expenses		71.48		47.92		39.62		44.10		49.00
New South Wales										
Assessed difference	- 41.295	- 6.25	- 33.115	- 4.97	- 25.113	- 3.75	- 48.263	- 7.16	- 44.721	- 6.58
Expenses - Assessed	431.076	65.23	286.025	42.95	240.466	35.88	249.166	36.94	288.500	42.42
Actual	431.076	65.23	286.025	42.95	240.466	35.88	249.166	36.94	288.500	42.42
Victoria										
Assessed difference	- 21.101	- 4.37	- 8.241	- 1.69	5.249	1.06	36.358	7.28	46.049	9.10
Expenses - Assessed	324.310	67.12	225.869	46.24	200.935	40.69	256.600	51.38	293.900	58.10
Actual	324.310	67.12	225.869	46.24	200.935	40.69	256.600	51.38	293.900	58.10
Queensland										
Assessed difference	49.619	13.52	26.867	7.15	9.225	2.40	- 13.891	- 3.53	- 15.648	- 3.90
Expenses - Assessed	311.892	85.01	206.948	55.07	161.607	42.02	159.481	40.56	181.100	45.10
Actual	311.892	85.01	206.948	55.07	161.607	42.02	159.481	40.56	181.100	45.10
Western Australia										
Assessed difference	15.704	8.21	15.449	7.98	16.342	8.32	36.741	18.42	28.769	14.16
Expenses - Assessed	152.502	79.69	108.249	55.90	94.182	47.94	124.691	62.52	128.300	63.16
Actual	152.502	79.69	108.249	55.90	94.182	47.94	124.691	62.52	128.300	63.16
South Australia										
Assessed difference	- 4.301	- 2.84	- 6.072	- 3.99	- 3.225	- 2.11	- 6.164	- 4.01	- 9.067	- 5.86
Expenses - Assessed	104.013	68.64	66.892	43.93	57.390	37.51	61.627	40.09	66.800	43.14
Actual	104.013	68.64	66.892	43.93	57.390	37.51	61.627	40.09	66.800	43.14
Tasmania										
Assessed difference	2.305	4.88	5.633	11.87	- 0.175	- 0.36	- 4.595	- 9.49	- 5.590	- 11.46
Expenses - Assessed	36.057	76.36	28.384	59.79	18.851	39.26	16.751	34.60	18.300	37.53
Actual	36.057	76.36	28.384	59.79	18.851	39.26	16.751	34.60	18.300	37.53
Australian Capital Territory										
Assessed difference	1.774	5.54	0.530	1.64	- 2.310	- 7.14	- 0.314	- 0.97	- 0.040	- 0.12
Expenses - Assessed	24.675	77.02	15.988	49.57	10.509	32.48	14.006	43.13	16.000	48.88
Actual	24.675	77.02	15.988	49.57	10.509	32.48	14.006	43.13	16.000	48.88
Northern Territory										
Assessed difference	- 2.704	- 13.65	- 1.052	- 5.31	0.007	0.04	0.128	0.63	0.249	1.21
Expenses - Assessed	11.459	57.83	8.449	42.62	7.889	39.66	9.013	44.73	10.300	50.21
Actual	11.459	57.83	8.449	42.62	7.889	39.66	9.013	44.73	10.300	50.21

Note: ACT expenses may include municipal expenses. Refer to Attachment A, 2007 Update, *Relative Fiscal Capacity of States* for how these figures are compiled.

