



COMMONWEALTH GRANTS COMMISSION

DRAFT ASSESSMENT PAPER CGC 2003/17

PROPERTY TITLES

Prepared for the Commission's 2003 Conferences on Draft Assessments

AUGUST 2003

NOTE

Included in this paper are the results of preliminary calculations based on the methods proposed throughout the paper and using the data currently available. Those results are indicative only and should be seen as work in progress. Ongoing changes are being made to standards and factor calculations as new data come to hand. Moreover, the calculations have been done using a prototype assessment system and are subject to ongoing revision as checking processes proceed.

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INTRODUCTION

1. This paper presents a draft assessment for the Property Titles user charges category in the 2004 Review. It builds on the staff proposals set out in *Discussion Paper CGC 2002/36 Law and Order*, and State comments provided in the 2003 Rejoinder Submissions.

THE 1999 REVIEW ASSESSMENT

Scope of the category

2. In the 1999 Review, the Property Titles category comprised net collections from fees and charges related to the registration of titles of property.

Importance of current assessment

3. Table 1 shows the standard user charges for the last six financial years. In 2001-02, this category represented 4.17 per cent of total user charges and 18.62 per cent of Administration of Justice gross standard expenses.

Table 1 PROPERTY TITLES — GROSS STANDARDS, 1996-97 TO 2001-02

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
\$ per capita	16.38	16.77	14.21	15.06	16.72	17.80
% of total user charges	5.00	4.75	3.78	3.83	4.11	4.17
% of Administration of Justice gross standard expenses	23.80	20.49	18.43	18.48	18.79	18.62

4. Compared with an equal per capita assessment, the 2003 Update assessment redistributed \$12.7 million in grants from New South Wales, Queensland and Western Australia to the other States. Table 2 sets out the redistribution between States in the 2003 Update.

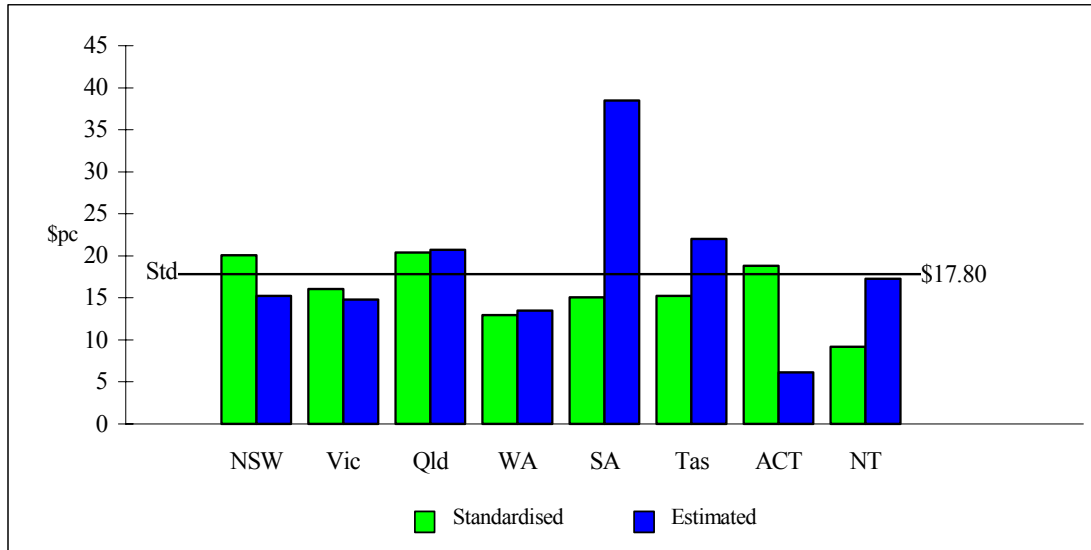
Table 2 EFFECT OF ASSESSMENT ON GRANTS DISTRIBUTION — PROPERTY TITLES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to U2003 relativities^(b)	-3.5	7.6	-8.3	-0.9	2.2	1.7	0.0	1.1	12.7

(a) Total redistribution.
Source: 2003 Update Working Papers.

5. Figure 1 shows for 2001-02, the standardised, estimated and standard user charges per capita in the 2003 Update.

Figure 1 PROPERTY TITLES — REVENUE PER CAPITA — STANDARDISED, ESTIMATED AND STANDARD, 2001-02



Structure of the assessment

6. The Property Titles assessment structure used in the 1999 Review is summarised in Table 3.

Table 3 PROPERTY TITLES ASSESSMENT STRUCTURE, 1999 REVIEW

User Charges component	Component weight	Factors	Basis of calculation
	%		
User charges	100.00	User charges	A weight of 60 per cent was applied to the <i>number</i> of transactions for Stamp Duty on Conveyances, and a weight of 40 per cent to the <i>value</i> of transactions, adjusted to reflect standard policies on the taxing of goodwill and the range of taxable transactions.

7. A user charges factor was applied to the whole category. The factor took into account different capacities to collect fees from the registration of property titles for each State. The disabilities included were the weighted number of conveyancing transactions, the weighted value of such transactions adjusted to reflect standard policies on the taxing of goodwill, and the range of taxable transactions.

8. Based on the amount of user charges raised from flat fees and from *ad valorem* charges, a 60 per cent weight was applied to the number of transactions data and a 40 per cent weight was applied to the value of transactions data.

PROPOSED CATEGORY STRUCTURE AND ASSESSMENT METHOD 2004 REVIEW

9. ***Preliminary State views.*** States did not comment.

10. ***Staff proposals.*** In *Discussion Paper CGC 2002/36 Law and Order*, staff proposed that for the 2004 Review the scope of the category and the method of assessment be retained.

11. ***Further State views.*** New South Wales, Queensland and the Northern Territory supported the retention of the existing assessment method. The remaining States did not comment.

12. ***Analysis.*** In the 1999 Review, the Commission decided that a combination of the number of conveyancing transactions and the value of transactions would be a more accurate measure of a State's capacity to raise revenue from property title services than values alone. This was because research had shown that States used either flat fees, a *valorem* (charges based on the value of the transaction), or other bases such as staff time, number of pages generated and cost recovery.

13. States generally supported the existing method of assessing the relative capacities of States to raise property titles revenue. They did not comment specifically on the structure of the assessment.

14. ***Commission decision.*** The Commission accepts that a conceptual basis exists to differentially assess the capacity to raise revenue from property titles registration. Capacities do vary with the number and value of property titles transactions undertaken by States. The conceptual case is supported by data, which the Commission is satisfied is comparable and representative, and provides a strong basis for a differential revenue assessment. The data indicate that the capacity to raise revenue from property titles registration has an impact on State budgets which the Commission considers to be material. The Commission therefore proposes to assess States' capacities to raise revenue from property titles using the number and value of transactions. We will continue to apply a differential assessment to the whole category.

15. The Commission decisions are summarised in Table 4.

Table 4 COMMISSION DECISION — PROPERTY TITLES

Decision	Reason
All property titles will be assessed based on the weighted number of conveyancing transactions, and the weighted value of such transactions adjusted to reflect standard policies on the taxing of goodwill and the range of taxable transactions.	Gives States the capacity to raise the average level of user charges by assessing differences between States in their capacities to raise revenue from property titles registration.

16. ***Method and results.*** Subject to changes in the assessment of the Stamp Duty on Conveyances revenue category, the Property Titles user charges factor will be derived as follows.

(i) For the element relating to the number of transactions:

- the number of transactions (Table 5) was divided by the population for each State and for Australia; and
- the number of transactions per capita for each State was divided by the Australian per capita figure to derive factors (Table 6).

(ii) For the element relating to the value of transactions:

- the value of conveyancing transactions in the sample data provided by the States (Table 7) was multiplied by the rescaling factor (used to rescale sample data — see Table 8), the subject matter taxed factor (because the distribution of transaction values affects States' revenue raising capacities — see Table 9) and the goodwill factor (to reflect State policy differences in the taxing of goodwill in the sale of businesses — see Table 10);
- the adjusted value of transactions was divided by the population for each State and for Australia; and
- the value of transactions per capita for each State was divided by the Australian per capita figure to derive factors (Table 11).

17. A weighted average of the two elements was then calculated — with a 60 per cent weight applied to the number of transactions element (Table 6), and a 40 per cent weight applied to the value of transactions factor (Table 11). These factors are shown in Table 12.

Table 5 NUMBER OF CONVEYANCING TRANSACTIONS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1997-98	203 148	134 928	155 049	81 088	50 953	15 320	8 929	5 376	654 791
1998-99	192 462	169 116	141 380	83 487	58 412	15 427	11 293	6 024	677 601
1999-2000	194 560	190 445	156 975	89 754	71 771	16 759	12 327	5 461	738 052
2000-01	176 360	169 888	163 139	58 810	59 199	18 720	14 026	4 264	664 406
2001-02	310 753	202 153	194 993	55 789	68 050	23 448	15 549	4 975	875 710

Source: State Land Department annual reports, and sample data provided by some States.

Table 6 NUMBER OF TRANSACTIONS FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1997-98	0.91480	0.83054	1.28866	1.27472	0.97619	0.92195	0.82070	0.80941	1.00000
1998-99	0.83740	1.00722	1.13115	1.26262	1.08821	0.90973	1.00763	0.87148	1.00000
1999-2000	0.77722	1.04202	1.14815	1.24369	1.23562	0.91879	1.01179	0.72207	1.00000
2000-01	0.78243	1.03281	1.31926	0.90475	1.14151	1.15453	1.27968	0.62541	1.00000
2001-02	1.04728	0.93189	1.18897	0.65092	1.00287	1.10906	1.07849	0.55689	1.00000

Note: Number of transactions (Table 5) / Mean Resident Population for each State and Australia; then number of transactions per capita for each State / number of transactions per capita for Australia.

Table 7 SAMPLE VALUE OF CONVEYANCING TRANSACTIONS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1997-98	55 965	23 837	17 252	9 784	8 214	1 288	1 743	1 045
1998-99	42 505	25 091	15 384	9 436	7 495	1 287	1 772	1 042
1999-2000	50 925	30 891	14 024	10 541	9 617	1 446	2 675	1 020
2000-01	54 320	30 399	28 242	11 917	8 619	1 686	2 601	832
2001-02	94 458	42 911	39 548	13 558	10 504	2 512	3 685	1 017

Source: Annual State data request.

Table 8 RESCALING FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	0.99271	0.97609	1.35284	1.37984	0.88573	1.20653	0.96411	0.99288
1998-99	1.25239	1.00046	1.62786	1.46054	0.95826	1.19868	0.93924	0.95534
1999-2000	1.34067	1.00000	1.79512	1.50897	0.92569	1.24051	1.00052	1.10714
2000-01	1.27281	1.00157	1.09315	1.20864	0.98752	1.31044	1.00134	1.00246
2001-02	0.97785	1.00000	1.15059	1.36812	1.00710	0.99590	0.99922	0.99497

Source: Annual State data request.

Table 9 POLICY ADJUSTMENT FOR SUBJECT MATTER TAXED

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.00000	1.04000	0.97000	0.97000	0.97000	1.00000	1.04000	1.00000
1998-99	1.00000	1.04000	0.97000	0.97000	0.97000	1.00000	1.02667	1.00000
1999-2000	1.00000	1.04000	0.97000	0.97000	0.97000	1.00000	1.00000	1.00000
2000-01	1.00000	1.04000	0.97000	0.97000	0.97000	1.00000	1.00000	1.00000
2001-02	1.00000	1.04000	0.97000	0.97000	0.97000	1.00000	1.00000	1.00000

Table 10 POLICY ADJUSTMENT FOR GOODWILL

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
All years	1.00000	1.04000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

Table 11 VALUE OF TRANSACTIONS FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1997-98	1.28127	0.79334	0.96367	1.05430	0.69248	0.47889	0.82259	0.79980
1998-99	1.21420	0.84769	1.01884	1.05990	0.68038	0.47699	0.79907	0.75468
1999-2000	1.29228	0.86619	0.84629	1.01297	0.70438	0.46594	1.04068	0.70738
2000-01	1.27459	0.83189	1.00631	0.89314	0.66152	0.56631	0.98755	0.50843
2001-02	1.24834	0.85802	1.07928	0.84189	0.60646	0.47451	1.02418	0.45424

Note: Sample value of transactions * rescaling factor * subject matter taxed * goodwill (Table 7 * Table 8 * Table 9 * Table 10) divided by Mean Resident Population for each State and Australia; then adjusted value of transactions per capita for each State / adjusted value of transactions per capita for Australia.

Table 12 PROPERTY TITLES USER CHARGES — JOINT NUMBER AND VALUE OF TRANSACTIONS FACTORS

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
1997-98	1.06139	0.81566	1.15866	1.18655	0.86271	0.74473	0.82146	0.80557	1.00000
1998-99	0.98812	0.94341	1.08623	1.18153	0.92508	0.73663	0.92420	0.82476	1.00000
1999-2000	0.98325	0.97168	1.02740	1.15140	1.02312	0.73765	1.02334	0.71619	1.00000
2000-01	0.97929	0.95244	1.19408	0.90011	0.94951	0.91924	1.16283	0.57862	1.00000
2001-02	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583	1.00000

Note: User charges factors = $[(\text{Table 6} - 1) * 0.6] + [(\text{Table 11} - 1) * 0.4] + 1$.

18. **Reality check.** The assessment appears to be in the expected direction, with a redistribution of grant shares away from those States experiencing strong real estate activity. This strong growth enhances their capacity to raise user charges from the registration of property titles.

19. **Updateability.** Data sourced from State Land Department annual reports and State collections are available annually to update the category factor.

SUMMARY OF RESULTS

20. Table 13 summarises the proposed assessment structure for the 2004 Review.

Table 13 PROPERTY TITLES ASSESSMENT STRUCTURE FOR THE 2004 REVIEW

User charges component	Component weight	Factors	Basis of calculation
Property titles	100.00	% User charges	The weighted average of the number of conveyancing transactions and the value of such transactions adjusted to reflect standard policies on the taxing of goodwill and the range of taxable transactions.

Derivation of category factor

21. Table 14 summarises the components, component weights and disability factors for this category for 2001-02. It shows the calculation of the category factor.

Table 14 PROPERTY TITLES — DERIVATION OF CATEGORY FACTOR, 2001-02

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Property titles (PT) (component weight = 100.00%)								
Property titles	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583
Component factor	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583
Cont. to category factor	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583
CATEGORY FACTOR	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583

Standardised user charges

22. Table 15 compares the category factors assessed for 2001-02 in the 2003 Update with those for the 2004 Review draft assessment.

Table 15 PROPERTY TITLES — CATEGORY FACTORS, 2004 REVIEW AND 2003 UPDATE

Category factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2004 Review draft assessment	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583
2003 Update	1.12770	0.90234	1.14509	0.72731	0.84431	0.85524	1.05677	0.51583

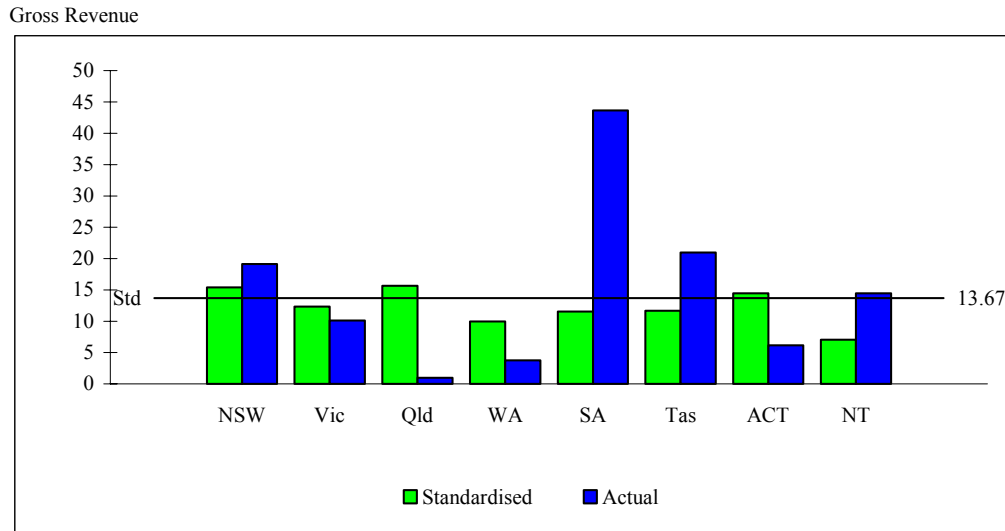
23. Table 16 shows the standardised user charges assessed for this category for 2001-02 in the draft assessment compared with that assessed in the 2003 Update.

Table 16 ACTUAL, STANDARD AND STANDARDISED USER CHARGES, 2001-02

	Standard	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Actual user charges (\$pc)									
2003 Update	17.80	15.22	14.78	20.69	13.45	38.49	22.00	6.14	17.28
2004 Review draft assessment	13.67	19.13	10.11	0.97	3.77	43.65	20.98	6.14	14.48
2003 Update - standardised user charges									
\$'000		133 329	77 994	74 828	24 838	22 828	7 205	6 071	1 836
\$ per capita	17.80	20.08	16.06	20.39	12.95	15.03	15.23	18.81	9.18
2004 Review Draft Assessment - standardised user charges									
\$'000		102 409	59 906	57 474	19 077	17 533	5 533	4 662	1 410
\$ per capita	13.67	15.42	12.34	15.66	9.95	11.55	11.70	14.45	7.05

24. Figure 2 shows the gross user charges per capita for 2001-02 in terms of standardised, estimated and gross standard user charges.

Figure 2 PROPERTY TITLES — GROSS USER CHARGES PER CAPITA STANDARDISED, ESTIMATED AND STANDARD, 2001-02



ANALYSIS

25. Table 17 shows the redistribution of grants resulting from the assessment in the 2003 Update and the Draft Assessment. It also shows the sources of change.

26. Compared with an equal per capita assessment, the draft assessment redistributed \$11.5 million away from New South Wales, Queensland and Western Australia to the other States, \$1.7 million less than in the 2003 Update.

27. The reason for the change in grants was a change to the standards used for the draft assessment.

Table 17 EFFECT OF ASSESSMENT ON GRANT DISTRIBUTION —
PROPERTY TITLES

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total ^(a)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Contribution to 2003 Update relativities^(b)	-3.7	7.9	-8.6	-0.9	2.3	1.8	0.0	1.2	13.2
Composition	0.5	-0.9	1.4	-0.2	-0.3	-0.2	0.1	-0.2	1.9
Assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interaction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution to 2004 Review Draft Assessment relativities^(b)	-3.2	7.0	-7.2	-1.2	2.0	1.5	0.1	1.0	11.5
Total Change	0.5	-0.9	1.4	-0.2	-0.3	-0.2	0.1	-0.2	1.9

(a) Total redistribution.

(b) Assuming same pool and a constant population.