

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 2008 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 2006-07, the average expenses of \$48.97 per capita represented 0.76 per cent of total State average expenses.

Table 1 First Home Owners Scheme, average expenses, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average expenses (\$pc)	71.46	47.45	38.75	44.40	47.70	48.97
% of total State average expenses	1.38	0.89	0.71	0.78	0.80	0.76

Source: Assessment System, U2008 GST/Expenses/c. Health and Community Services (4110 - 4180)/4164 First Home Owners Scheme/Tables and Chart/4164 E Average Expenses and User Charges.

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 2007 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 2006-07 year of the 2008 Update. There is only one component and one factor.

Table 2 First Home Owners Scheme, assessment structure, 2008 Update, 2006-07

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 2006-07.

Table 3 First Home Owners Scheme, derivation of category factor for the 2008 Update, 2006-07

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
First home owners scheme (component weight = 100 %)								
First home owners scheme	0.97435	1.02723	1.10794	0.85661	0.94956	0.87078	1.18734	0.84637
Component factor	0.97435	1.02723	1.10794	0.85661	0.94956	0.87078	1.18734	0.84637
A Wgtd comp factor	0.97435	1.02723	1.10794	0.85661	0.94956	0.87078	1.18734	0.84637
Category factor	0.97435	1.02723	1.10794	0.85661	0.94956	0.87078	1.18734	0.84637

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

Source: Assessment System, U2008 GST/Expenses/ Health and Community Services/First Home Owners Scheme/Assessed Expenses

- 8 The category factor was calculated as follows:

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

RESULTS FOR 2006-07

- 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 2008 Update.
- 10 Table 4 shows actual, average and assessed expenses per capita and the assessed cost of providing services ratio for the assessment in 2006-07. The assessed cost of services provision ratios are equivalent to the category factors shown in Table 3.

Table 4 First Home Owners Scheme, assessment results, 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses	47.71	50.30	54.26	41.95	46.50	42.64	58.14	41.45	48.97
Assessed expenses	47.71	50.30	54.26	41.95	46.50	42.64	58.14	41.45	48.97
Assessed cost of providing services ratio (a)	97.43	102.72	110.79	85.66	94.96	87.08	118.73	84.64	100.00

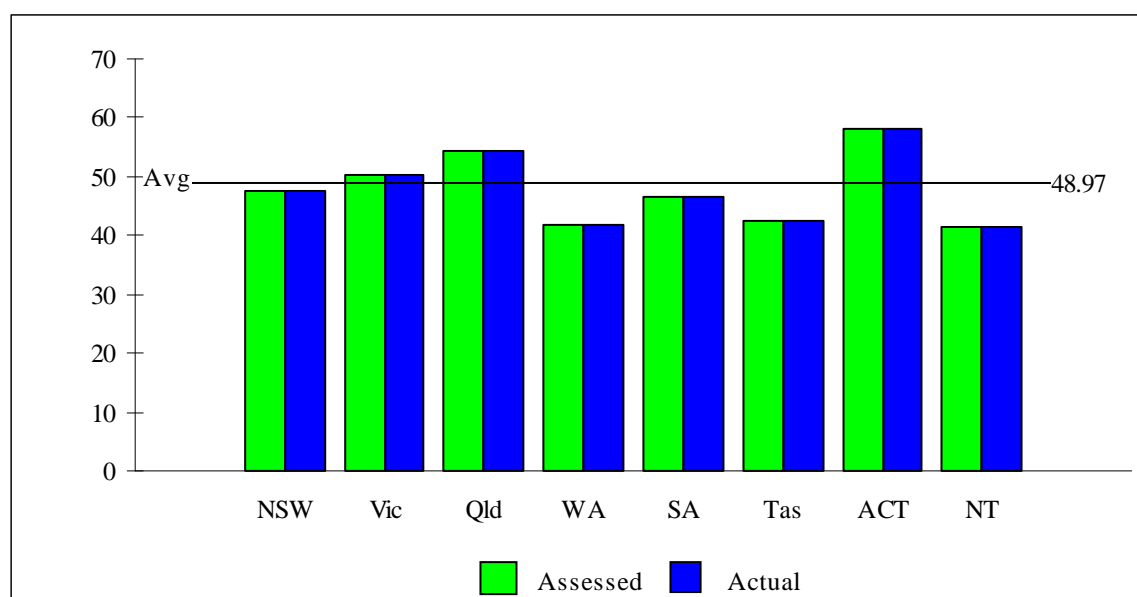
Note: ACT expenses may include municipal expenses

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

Source: Assessment System, U2008 GST/Expenses/ Health and Community Services/First Home Owners Scheme/Tables and Chart/ Assessment Results

- 11 Figure 1 illustrates the per capita assessed, actual and average expenses for the First Home Owners Scheme for 2006-07. In that year, assessed/actual expenses per capita in Queensland and the ACT were above the average level of expenses per capita, those for New South Wales and Victoria were close to average, while those for the other States were below average.

Figure 1 First Home Owners Scheme, gross expenses per capita — assessed, actual and average, 2006-07



Source: Assessment System, U2008 GST/Expenses/ Health and Community Services/First Home Owners Scheme/Tables and Chart/ Expenses Per Capita - Assessed, Actual and Average

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 2008 Update assessment.

Table 5 First Home Owners Scheme, 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
First home owners scheme	-34.1	11.0	10.3	20.3	-5.8	-1.5	0.3	-0.6	41.9
Component factor	-34.1	11.0	10.3	20.3	-5.8	-1.5	0.3	-0.6	41.9
Redistribution from EPC resulting from the 2008 Update assessment	-34.1	11.0	10.3	20.3	-5.8	-1.5	0.3	-0.6	41.9

Source: Assessment System, U2008 GST/Expenses/Health and Community Services/First Home Owners Scheme/Tables and Chart/ Contribution of Assessment to GST Revenue

Differences from an equal per capita assessment

13 Table 5 shows that, compared with an equal per capita (EPC) assessment, the 2008 Update redistributed \$41.9 million from New South Wales, South Australia, Tasmania and the Northern Territory to the other States. The redistribution from these States reflects their lower than average expenses across the five years of the 2008 Update.

CHANGES SINCE THE 2007 UPDATE

Effect of assessment on the distribution of GST revenue

14 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.

15 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 demographic, and economic circumstances on the relative costs of those services.

Table 6 First Home Owners Scheme, 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)	-49.1	10.9	18.5	28.4	-7.4	-0.3	0.0	-1.1	57.8
Effect of revising category averages and factors for 2001-02 to 2005-06									
Category average	0.3	-0.2	-0.1	-0.2	0.1	0.0	0.0	0.0	0.4
Category factors	4.1	-8.2	3.0	-0.1	0.9	0.1	0.2	0.0	8.3
Interactions	0.0	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.2
Total	4.3	-8.2	2.8	-0.3	1.0	0.1	0.2	0.0	8.4
Effect of replacing 2001-02 category averages and factors with those for 2006-07									
Category average	6.2	3.3	-7.7	-2.3	0.7	-0.3	-0.2	0.4	10.6
Category factors	8.9	9.7	-6.6	-10.9	-0.2	-1.9	0.8	0.2	19.6
Interactions	-4.4	-4.7	3.2	5.3	0.1	1.0	-0.4	-0.1	9.6
Total	10.7	8.3	-11.0	-7.9	0.6	-1.3	0.2	0.5	20.2
Redistribution from EPC resulting from the 2008 Update assessment (a)	-34.1	11.0	10.3	20.3	-5.8	-1.5	0.3	-0.6	41.9
Total effect of revisions and updating (b)	15.1	0.1	-8.2	-8.1	1.5	-1.2	0.4	0.5	17.5

(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.

Source: Assessment System, U2008 GST/Expenses/ Health and Community Services/First Home Owners Scheme/Tables and Chart/ Effect of Assessment, Previous Inquiry to Current Inquiry

16 The total effect of revisions and updating was to reduce the amount redistributed and to redistribute \$17.5 million across States. The biggest redistributions were from Queensland and Western Australia and to New South Wales.

17 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

Revising average expenses

18 There were modest, generally downward, revisions to category expenses data in this Update (Table 7). As this is an actual per capita assessment, the resulting (small) redistributions across

the States were reflective of the size and sign of revisions in aggregate expenses over the period and the corresponding State per capita expenses.

Table 7 First Home Owners Scheme, 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
2008 Update		71.46	47.45	38.75	44.40	47.70	48.97
2007 Update	53.11	71.48	47.92	39.62	44.10	49.00	
Difference	-	-0.03	-0.47	-0.87	0.30	-1.30	-

Source: Assessment System, U2008 GST/Expenses/Health and Community Services/ First Home Owners Scheme/Tables and Chart/Average Expenses Used in the 2007-08 Updates

Revising category factors

- 19 As this is an actual per capita assessment, the revisions in category factors reflected the pattern of revisions to per capita expenses across the States. The revisions resulted in an \$8.3 million redistribution of GST revenue. The largest redistribution was from Victoria, in line with the relatively large downward revisions recorded for that State.

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

- 20 Table 8 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.

Replacing average expenses

- 21 Between 2001-02 and 2006-07, per capita average expenses fell in all States and by 26.8 per cent overall. There was a large drop in outlays in 2002-03 and a smaller fall in 2003-04. The higher outlays in 2001-02 and 2002-03 stemmed from the bringing forward of construction activity to take advantage of the Commonwealth Additional Grant of \$7000 for the construction or purchase of eligible new homes which was available for a short period of time before being phased out. Outlays resumed their upward trend in 2004-05. The fall over the period contrasts with an increase in the per capita GST pool of 43.9 per cent. The category therefore became significantly less important to the calculation of relativities. Replacing average expenses resulted in a \$10.6 million redistribution of GST revenue to the States with below average 2001-02 costs of providing services ratios. As this is an actual per capita assessment, the redistributions were to the States with below average per capita expenses.

Table 8 First Home Owners Scheme, actual expenses and assessed cost of providing services, 2001-02 and 2006-07

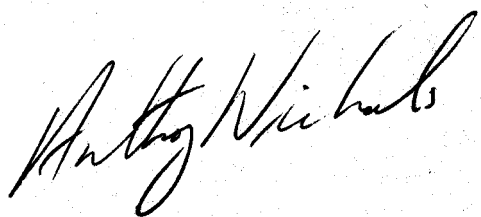
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses									
2001-02	65.26	67.07	84.93	79.66	68.59	76.35	76.89	57.72	71.46
2006-07	47.71	50.30	54.26	41.95	46.50	42.64	58.14	41.45	48.97
	%	%	%	%	%	%	%	%	%
Change between 2001-02 and 2006-07									
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
	-26.88	-25.00	-36.12	-47.34	-32.20	-44.15	-24.38	-28.19	-31.47
Assessed expenses									
2001-02	65.26	67.07	84.93	79.66	68.59	76.35	76.89	57.72	71.46
2006-07	47.71	50.30	54.26	41.95	46.50	42.64	58.14	41.45	48.97
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio									
2001-02	91.32	93.86	118.86	111.48	95.98	106.84	107.61	80.78	100.00
2006-07	97.43	102.72	110.79	85.66	94.96	87.08	118.73	84.64	100.00

Source: Assessment System, U2008 GST/Expenses/ Health and Community Services/First Home Owners Scheme/Tables and Chart/ Assessment Data, Year 0 and Year 5

Replacing category factors

- 22 As this is an actual per capita assessment, the change in category factors over the period reflected the change in actual expense patterns in the States. While all States spent less on this scheme in 2006-07 compared with 2001-02, the reduction in outlays was most marked in the case of Queensland, Western Australia and Tasmania. The redistributions from these States were therefore the largest in per capita terms. The reduction in outlays was the least for New South Wales and Victoria, resulting in a significant redistribution towards these States. Victorian average expenses moved from below the average to above the average while those for Western Australia and Tasmania switched in the opposite direction.

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.



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Table 9 Assessment of expenses, First Home Owners Scheme

	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		47.45		38.75		44.40		47.70		48.97
New South Wales										
Assessed difference	- 34.491	- 5.18	- 24.677	- 3.69	- 41.305	- 6.13	- 31.307	- 4.61	- 8.612	- 1.26
Expenses - Assessed	281.203	42.27	234.665	35.06	257.611	38.26	292.530	43.09	327.120	47.71
Actual	281.203	42.27	234.665	35.06	257.611	38.26	292.530	43.09	327.120	47.71
Victoria										
Assessed difference	- 8.979	- 1.83	- 1.070	- 0.22	33.456	6.67	20.780	4.08	6.890	1.33
Expenses - Assessed	223.315	45.62	190.983	38.54	256.306	51.06	263.622	51.78	259.945	50.30
Actual	223.315	45.62	190.983	38.54	256.306	51.06	263.622	51.78	259.945	50.30
Queensland										
Assessed difference	28.665	7.61	11.926	3.09	- 16.023	- 4.05	- 6.188	- 1.53	21.860	5.29
Expenses - Assessed	207.438	55.06	161.609	41.84	159.631	40.35	186.944	46.17	224.383	54.26
Actual	207.438	55.06	161.609	41.84	159.631	40.35	186.944	46.17	224.383	54.26
Western Australia										
Assessed difference	16.204	8.36	17.770	9.03	35.980	17.99	25.786	12.65	- 14.620	- 7.02
Expenses - Assessed	108.190	55.81	94.040	47.78	124.774	62.39	123.028	60.35	87.338	41.95
Actual	108.190	55.81	94.040	47.78	124.774	62.39	123.028	60.35	87.338	41.95
South Australia										
Assessed difference	- 5.558	- 3.64	- 2.142	- 1.39	- 6.992	- 4.52	- 5.713	- 3.66	- 3.895	- 2.47
Expenses - Assessed	66.869	43.81	57.390	37.36	61.675	39.88	68.723	44.04	73.314	46.50
Actual	66.869	43.81	57.390	37.36	61.675	39.88	68.723	44.04	73.314	46.50
Tasmania										
Assessed difference	4.625	9.74	0.221	0.46	- 4.479	- 9.24	- 4.547	- 9.31	- 3.111	- 6.33
Expenses - Assessed	27.167	57.19	18.848	39.21	17.045	35.16	18.753	38.39	20.965	42.64
Actual	27.167	57.19	18.848	39.21	17.045	35.16	18.753	38.39	20.965	42.64
Australian Capital Territory										
Assessed difference	0.558	1.72	- 2.132	- 6.54	- 0.580	- 1.77	0.987	2.97	3.089	9.17
Expenses - Assessed	15.939	49.17	10.509	32.22	14.006	42.63	16.835	50.67	19.577	58.14
Actual	15.939	49.17	10.509	32.22	14.006	42.63	16.835	50.67	19.577	58.14
Northern Territory										
Assessed difference	- 1.024	- 5.13	0.104	0.52	- 0.056	- 0.28	0.201	0.96	- 1.601	- 7.52
Expenses - Assessed	8.440	42.32	7.889	39.27	9.013	44.12	10.157	48.66	8.820	41.45
Actual	8.440	42.32	7.889	39.27	9.013	44.12	10.157	48.66	8.820	41.45

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

Source: Assessment System, U2008 GST/Expenses/Health and Community Services/First Home Owners Scheme/Tables and Chart/Assessment of Expenses/