Parliament of Australia
Department of Parliamentary Services

Parliamentary Library
Information, analysis and advice for the Parliament

BILLS DIGEST

www.aph.gov.au/library

24 November 2008, no. 61, 2008–09, ISSN 1328-8091

Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09

Peter Hicks, Scott Kompo-Harms and Richard Webb
Economics Section

Contents

Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09

Date introduced: 11 November 2008

House: House of Representatives

Portfolio: Finance and Deregulation

Commencement: On Royal Assent

Links: The *relevant links* to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

To appropriate approximately $1.184 billion for the non-ordinary (or 'other') annual services of government as part of the government's Economic Security Strategy.

Background

On 14 October 2008, the Rudd Government announced its Economic Security Strategy.[1] The context for the announcement is what may be the most severe downturn in the world economy since the Second World War. The downturn has inevitably affected Australia, which faces the prospect of a sharp decline in economic growth if not a recession. To try to counter the slowdown, the government announced a discretionary fiscal stimulus package known as the Economic Security Strategy. For additional background, see the Bills Digest for Appropriation (Economic Security Strategy) Bill (No. 1) 2008-09.

The Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09 (the Bill) seeks funding for only one component of the Economic Security Strategy, namely, a short term increase in assistance to those seeking to buy their first home. All of the proposed funding is through Treasury. Two related bills—the Appropriation (Economic Security Strategy) Bill (No. 1) 2008-09 and the Social Security and Other Legislation Amendment (Economic Security Strategy) Bill 2008—seek funding for the other components of the Economic Security Strategy.[2] Under the First Home Owners Boost component of the

1. Hon. Kevin Rudd (Prime Minister) and Hon. Wayne Swan (Treasurer), 'Economic Security Strategy', *media release*, Canberra, 14 October 2008, at http://pm.gov.au/media/Release/2008/media_release_0550.cfm. Accessed 12 November 2008.

2. Paragraph 2 at page 1 of the Explanatory Memorandum explains the Constitutional reasons for having two separate bills, one for ordinary annual services and the other bill for other

Economic Security Strategy, the existing grant for first home buyers who purchase established homes will double from $7,000 to $14,000 while the grant for those purchasing a newly-constructed home will treble to $21,000.

The First Home Owners Boost took effect from 14 October 2008 and all contracts entered into by 30 June 2009 will be eligible for the additional assistance. The government estimates that over 150,000 first home buyers will benefit from the First Home Owners Boost which is expected to cost around $1.5 billion over 2008-09 and 2009-10.[3]

Brief history of first home owner schemes

A range of measures providing direct financial assistance to first home buyers have been implemented at various times by Commonwealth and state governments. A First Home Owners Scheme (FHOS) was initially introduced by the Commonwealth government on 1 October 1983 and terminated in the 1990 Budget.[4] It replaced three other Commonwealth schemes in operation at that time: the Home Deposit Assistance Scheme, the Special Tax Rebate Scheme for first home buyers and the General Tax Rebate on Housing Loan Interest. In contrast to current arrangements, the benefit payable under FHOS was means tested, related to the number of dependent children and spread receipt of payments over several years.

The current First Home Owner's Grant (FHOG)[5] was established via agreement between the Commonwealth and states and territories. It was developed as part of the arrangements for implementing the new tax system which came into effect on 1 July 2000. The FHOG introduced on 1 July 2000 is effectively funded out of GST revenues and administered by the states. There is no specific Commonwealth legislation for the FHOG. All legislation concerning FHOG is state based as per the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the Agreement) signed in June 1999.[6]

---

services. The Explanatory Memorandum is at http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4005_ems_3ddfde4e-e6a3-4dcb-b49d-6f7c46742995/upload_pdf/320968.pdf;fileType%3Dapplication%2Fpdf. Accessed 12 November 2008.

3. Hon. Kevin Rudd (Prime Minister) and Hon. Wayne Swan (Treasurer), *Economic Security Strategy*, op. cit.

4. The nature of the scheme was such that payments continued to be made to some eligible recipients for several years after the announced termination.

5. Note that the measure was initially formally referred to as the First Home Owners Scheme and in the context of the current scheme 'FHOS' and 'FHOG' can be used interchangeably.

6. The agreement forms a schedule to *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* and Appendix D covers the FHOG arrangements. See http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/642F10C5D3FBE

The main rationale for the FHOG is given in Paragraph 15 of the Agreement, which states:

> "To offset the impact of the introduction of a GST, the States and Territories will assist first homebuyers through the funding and administration of a new uniform First Home Owners Scheme."

In March 2001, the Commonwealth made an additional $7,000 grant available to first home owners building or purchasing new homes before 31 December 2001. The Commonwealth fully funded the additional FHOS with a Specific Purpose Payment through the States to meet the cost of grants. The Government extended the additional FHOS at a rate of $3,000 for new homes built or purchased between 1 January and 30 June 2002.

The purpose of the additional FHOS was to provide a short-term stimulus to activity in the residential construction sector. As such, the additional grant was introduced for a limited period, and applied only to first home buyers purchasing or building a new home.[7]

Expenditure on first home schemes

First Home Owners Scheme ($ million)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
2007-08 [e]	320.4	268.1	216.2	95.3	72.6	20.3	19.1	8.8	1020.8
2006-07	318.7	275.4	215.0	94.7	72.2	20.2	19.0	8.8	1024.0
2005-06	288.5	293.9	181.1	128.3	66.8	18.3	16.0	10.3	1003.4
2004-05	271.0	256.6	165.2	124.7	65.1	18.1	13.7	9.2	923.6
2003-04	237.9	195.8	168.8	93.9	57.0	19.5	11.3	7.8	792.0
2002-03	287.4	225.4	209.2	108.7	67.0	27.4	16.0	8.3	949.4
2001-02	440.0	329.2	316.2	157.9	105.0	37.1	25.9	11.8	1423.1
2000-01	287.7	232.0	205.8	110.5	100.0	30.2	21.0	8.9	996.1
Estimated total 2000-01 to 2007-08	2451.6	2076.4	1677.5	914.0	605.7	191.1	142.0	73.9	8132.4

D92CA2571F000005D3B/$file/ANTSCwlthStatFinArr1999_WD02.pdf Accessed 20 November 2008.

7. Rodrigues, M., 'First home buyers in Australia', *Economic Roundup*, Summer 2003-04, at http://www.treasury.gov.au/documents/780/HTML/docshell.asp?URL=02_Home_Buyers.asp Accessed 20 November 2008.

Additional First Home Owners Scheme ($ million)

2008-09 [e]	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0	2.4
2007-08 [e]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2006-07	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2005-06	1.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0	1.3
2004-05	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2003-04	2.1	0.0	0.0	0.0	0.0	0.2	0.0	0.0	2.3
2002-03	15.5	25.2	3.3	5.5	4.5	0.9	1.2	0.4	56.5
2001-02	80.1	89.3	82.0	62.0	23.3	3.8	4.0	2.9	337.5
2000-01	18.4	15.3	9.4	7.3	5.9	1.7	1.4	0.6	60.0
Estimated total 2000-01 to 2008-09	117.3	132.1	94.7	74.8	33.7	6.8	6.6	3.9	460.0

First Home Owners Boost ($'000)

2009-10 [e]	112.4	95.8	68.7	38.1	23.4	6.8	5.7	2.9	353.6
2008-09 [e]	376.5	321.1	230.1	127.5	78.3	22.7	19.0	9.6	1184.9
Estimated total 2008-09 to 2009-10	488.8	417.0	298.8	165.6	101.7	29.4	24.7	12.5	1538.5

Sources:
Final Budget Outcome for 2000-01 to 2006-07
Budget Paper No. 3 2007 – 08
Mid-Year Economic and Fiscal Outlook 2008-09
e - estimated

Position of significant interest groups

Property and construction industry organisations have welcomed the increases in the FHOG. The Housing Industry Association (HIA) has described the measure as a "proactive decision" and "necessary to save jobs in the residential construction industry". HIA Managing Director Ron Silberberg said:

> The tripling of FHOG appropriately is targeted at increasing the supply of new housing and will complement other major initiatives to increase the availability of lower-cost new housing. By moving quickly to stabilise the industry's supply

> capacity, the initiative will help to ensure the industry is better placed to handle a sustained upswing in general buyer activity down the track.[8]

The Property Council of Australia observed "With the demand for housing dramatically exceeding supply, the tripling of the grant to $21,000 will get builders building again – and first home buyers buying again" and remarked "there has never been a better time to introduce this cash injection."[9]

In its response The Real Estate Institute of Australia (REIA) noted it had been advocating for such an initiative for some time and contends:

> This decision, combined with last week's reduction in interest rates, should provide a much needed impetus to first home buyers who have been waiting to enter the housing market … The decision should also see a positive response by the home construction industry in increasing the production of new dwellings.[10]

The REIA has also urged the government to review the impact of the First Home Owners Boost before payments return to previous levels in June 2009.

Press commentary/pros & cons

The First Home Owners Boost has attracted a good deal of press commentary. In the main commentators agree that the tripling of the grant for purchase of a newly constructed home will assist the residential construction sector at least by bringing forward construction activity that would otherwise have occurred in 2009-10.[11] However most have questioned the value of doubling the grant for purchase of established houses.

Typical of the commentary is that by ANZ Banking Group's Chief Economist Saul Eslake:

---

8. Housing Industry Association, *Tripled FHOG to Boost Supply*, *Media Release*, Canberra, 16 October 2008, http://hia.com.au/Latest%20News/Article.aspx?CID=&yearmonth=200810&title=October%202008&AID={EE8355FB-091A-40C3-BA76-4C81F80BAA90}

   Accessed 20 November 2008.

9. Property Council of Australia, 'Triple delight for first home owners' *Media Release*, 15 October 2008, http://www.propertyoz.com.au/Article/Resource.aspx?p=21&media=1001. Accessed 20 November 2008.

10. Real Estate Institute of Australia, *Media Release*, 14 October 2008. http://www.reia.com.au/documents/MR_2008_10_14_First_home_owners_grant.doc Accessed 20 November 2008.

11. For an analysis of the pull forward effect of the additional FHOS introduced in March 2001 see Rodrigues op cit.

> The trebling of the First Home Owners' Grant for buyers committing to a newly-constructed dwelling during the current financial year will undoubtedly stimulate additional housing activity in the short-term, principally by "pulling forward" demand from 2009-10. However, I do have reservations about the wisdom of doubling the grant for first-time purchasers of existing dwellings. I have long argued that money initially put into the hands of homebuyers ends up in the pockets of home-sellers, and results in higher house prices rather than improved housing affordability.
>
> Unless the Government is seriously concerned about the risk that home prices could fall sharply (which would of course be the greatest single favour would-be first-time buyers could ask for, although I think it is unlikely to happen on a wide scale), this component of the Government's package is likely to be relatively ineffective in boosting activity.[12]

Very similar sentiments were expressed by *The Australian's* National Affairs Editor, Mike Steketee.[13]

Elsewhere an opinion piece in *The Australian*, whilst acknowledging the Prime Minister's argument that the two measures the government has introduced to increase the supply of houses would tend to offset any risk of the grant increase simply feeding into prices, concluded that:

> … neither [the government's rental affordability scheme and the housing affordability scheme] can stop the first-home owners grant from being passed on from taxpayer to seller, because Labor's supply-side measures will take years to deliver their promised benefits.[14]

A more acerbic assessment of the whole notion of direct assistance to first homebuyers was provided by *The Age's* Associate Editor:

> But the first house owner's grant is a poor piece of policy. It was awful when the Howard government introduced it and it's just as bad now. It distorts prices and

---

12. Eslake, S., 'Spend, spend, spend' *The Adelaide Advertiser*, 15 October 2008 http://parlinfo/parlInfo/download/media/pressclp/IPTR6/upload_binary/iptr60.pdf;fileType=application%2Fpdf#search=%22%22eslake%22%2015/10/2008%20pressclp%22 Accessed 20 November 2008.

13. Stetekee, M., 'Rudd's generous buck stops with the unemployed' *The Australian* 16 October 2008 http://parlinfo/parlInfo/download/media/pressclp/D2UR6/upload_binary/d2ur60.pdf;fileType=application%2Fpdf#search=%22%22steketee%22%2016/10/2008%20pressclp%22 Accessed 20 November 2008.

14. Megalogenis, G., 'Sellers will get the benefit, not buyers', *The Australian* 16 October 2008 http://parlinfo/parlInfo/download/media/pressclp/G0UR6/upload_binary/g0ur60.pdf;fileType=application%2Fpdf#search=%22%22megalogenis%22%2016/10/2008%20pressclp%22 Accessed 20 November 2008.

> quickly benefits vendors and builders ahead of purchasers. And it has little to do with remaking home buying more equitable. The millionaire's son gets it just as easily as the son of the contract cleaner from St Albans.

And three media reports have noted that the Minister for Finance and Deregulation and the Minister for Housing have previously expressed strong reservations about the FHOS.[15]

An assessment of the FHOS was undertaken by the Productivity Commission (PC) as part of its 2004 inquiry into first home ownership. The PC noted:

> … while the FHOS was conceived as compensation to first home buyers for the introduction of the GST, its ongoing justification in this role is questionable. The money involved could yield a higher return to the community if redirected to support the broader housing needs of low income households.

The PC further commented:

> If governments wish to continue providing direct assistance to first home buyers, the current FHOS provides an administratively simple and flexible basis for delivering the bulk of such assistance.
>
> However, a deficiency in the present arrangements, reflecting the initial compensation rationale, is their limited targeting. The bulk of FHOS assistance goes to households with above-average incomes, who might otherwise have purchased a house before too long, even without assistance. In the Commission's view, the scheme would have a greater impact on first home ownership if it were more closely targeted at lower income households, with a commensurate increase in grant levels.

The PC recommended that if the FHOS was to continue:

> … assistance should be targeted to the housing needs of lower income households by restricting eligibility to homes below (regionally differentiated) price ceilings.[16]

---

15. AAP, 'Cutting interest rates better, Costello says' *The Canberra Times*, 16 October 2008 http://parlinfo/parlInfo/download/media/pressclp/ZWTR6/upload_binary/zwtr60.pdf;fileType=application%2Fpdf#search=%22costello%2016/10/2008%20pressclp%22 Accessed 20 November 2008.

    Middleton, K., 'Data, risk and instinct' *The Canberra Times* 18 October 2008 http://parlinfo/parlInfo/download/media/pressclp/HUUR6/upload_binary/huur60.pdf;fileType=application%2Fpdf#search=%22data%2018/10/2008%20pressclp%22 Accessed 20 November 2008.

    Maiden, S., 'First-home grant rise suddenly important' *The Australian*, 15 October 2008. http://parlinfo/parlInfo/download/media/pressclp/3JTR6/upload_binary/3jtr60.pdf;fileType=application/pdf#search=%22important%2015/10/2008%20pressclp%22 Accessed 20 November 2008.

16. Productivity Commission, , *First Home Ownership*, Report no. 28, Melbourne, 2004.

More recently the FHOG was addressed by the Senate Committee inquiry into housing affordability. The committee appeared to agree with the view of many witnesses that FHOG contributed to higher house prices and recommended an increase in the grant for newly-constructed dwellings and a reduction in the grant for existing dwellings.[17]

Financial implications

The Bill appropriates about $1 184.8 million.

Main provisions

For the most part, the Bill's provisions are identical to those in *Appropriation Act (No. 2) 2008-09*, which appropriated funds for services other than ordinary annual services. The Bill differs from *Appropriation Act (No. 2) 2008-09* in that certain provisions in *Appropriation Act (No. 2) 2008-09* are not relevant to the Bill, for example, those relating to the advance to the Finance Minister.

Part 1—Preliminary

Clause 3 contains definitions. Most definitions are identical to those in *Appropriation Act (No. 2) 2008-09*. The following are some of the definitions in **clause 3**:

- CAC Act body: this is a Commonwealth authority or company within the meaning of the *Commonwealth Authorities and Companies Act 1997*
- CAC Act body payment item: this is the amount set out in **Schedule 2** (see below) in relation to a CAC Act body
- Chief Executive is defined as having the same meaning as in the *Financial Management and Accountability Act 1997*.

The Bill does not appropriate funds to a CAC Act body. However, it seems that the definitions of CAC Act body and the CAC Act body payment item are retained because the Bill relates to other Acts containing payments to CAC Act bodies.

Clause 3 expands the definition of Portfolio Budget Statements—compared with the definition in *Appropriation Act (No. 2) 2008-09*—to include the Portfolio Budget Statements for the Bills for *Appropriation Act (No. 1) 2008-09* and for *Appropriation Act (No. 2) 2008-09*. Similarly, **clause 3** expands the definition of Portfolio Supplementary

17. Senate Select Committee on Housing Affordability in Australia, June 2008 *Housing affordability in Australia -A good house is hard to find: Housing affordability in Australia.* The Senate. http://www.aph.gov.au/Senate/committee/hsaf_ctte/index.htm Accessed 20 November 2008.

Estimates Statements to include not just those for the Bill but also for the bill for the *Appropriation (Economic Security Strategy) Act (No. 1) 2008-09*.

Part 2—Appropriation items

Clause 6 of **Part 2** provides that the total of the items in **Schedule 2** is $1 184 833 000.

Clause 7 deals with payments to the states, territories and local government. **Subclause 7(2)** specifies that if the Portfolio Budget Statements or Portfolio Supplementary Estimates Statements indicate that certain activities were intended to be for a particular outcome, then expenditure on those activities is taken to be as contributing to the outcome.

Clause 8 deals with 'administered items'. **Subclause 8(1)** provides that the amount identified for an administered item in an outcome can be used to contribute to that outcome. The wording of **subclause 8(2)** is identical to that in **subclause 7(2).**

C**lause 9** deals with administered assets and liabilities. **Subclause 9(1)** provides that the amount identified for an agency's administered assets and liabilities may be applied to achieving any of the agency's outcomes, which are specified in **Schedule 2** of the Bill [**paragraph 9(1)(a)**] or in Schedule 1 to the *Appropriation (Economic Security Strategy) Act (No. 1) 2008-2009* [**paragraph 9(1)(b)**] or in Schedule 2 to the *Appropriation Act (No. 2) 2008-2009* [**paragraph 9(1)(c)**] or in Schedule 1 to the *Appropriation Act (No. 1) 2008-2009* **[paragraph 9(1)(d)**].

Clause 10—Other departmental items—provides that the amount specified in an other departmental item for an Agency may be applied for the departmental expenditure of the Agency.

Clause 11 deals with CAC Act body payments. **Subclause 11(1)** provides that an amount appropriated for a CAC Act body payment item may only be applied for payment to the CAC Act body named. **Subclause 11(2)** provides that if an Act provides that a CAC Act body must be paid amounts that are appropriated by the Parliament for the purposes of the body, and Schedule 2 contains a CAC Act body payment item for that body, then the body must be paid the full amount specified in the item.

Part 3—Adjusting appropriation items

Three clauses in Part 3 deal with reductions to appropriations:

- **clause 12** deals with adjustments to (a) payments to the states, territories and local government and (b) administered items
- **clause 13** deals with (a) administered assets and liabilities and (b) other departmental items, that is, equity injections, loans, and previous years' outputs, and
- **clause 14** with reductions to CAC Act bodies payment items.

Subclause 12(1) stipulates that the amount by which payments to the states, territories and local government and for administered items can be reduced is the difference between what has been appropriated and what has been spent, the latter being the amount shown in agencies' financial statements. However, **paragraph 12(2)(a)** gives the Finance Minister power to determine that **subclause 12(1)** does not apply or that **subclause 12(1)** applies as if the amount in the annual report were the amount that the Finance Minister determines [**paragraph 12(2)(b)**].

Subclause 13(1) enables the minister responsible for an agency, or the chief executive of the agency—where the Finance Minister is responsible for the agency—to seek a reduction in administered assets and liabilities and other departmental items, while **subclause 13(2)** empowers the Finance Minister to make a determination that accords with the request. However, the determination cannot reduce the appropriation below zero [**subclause 13(3)**]. Requests are not legislative instruments [**subclause 13(5)**]. While the Finance Minister's determinations are legislative instruments and are disallowable, the determinations are not subject to the sunsetting provisions of the *Legislative Instruments Act 2003* [**subclause 13(6)**].

The wording in **clause 14**—which deals with reductions to CAC Act bodies payment items— is almost the same as for **clause 13**. However, whereas a request can come from the Chief Executive of an agency for which the Finance Minister is responsible in the case of **clause 13,** a similar request must come from the Secretary of the Department in the case of CAC Act bodies [**paragraph 14(1)(b)]. Subclause 14(5)** confirms that a reduction can be made for a CAC Act body even though it has been allocated funds under **subsection 11(2)**.

Part 4—Miscellaneous

Section 96 of the Constitution provides in part:

> … the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit.

This is the section under which the Australian Government provides grants of financial assistance to the states, territories and local government. **Clause 16** delegates Parliament's power to the responsible Minister listed in **Schedule 1.** (In this case, there is only one Minister, namely, the Treasurer). Clause 16 provides the Ministers with power to determine the terms and conditions under which payments may be made [**paragraph 16(2)(a)]** and the amounts and times of payments [**paragraph 16(2)(b)**]. Determinations in **paragraph 2(a)** and **paragraph 16(2)(b)** are not legislative instruments [**subclause 16(4)**].

Schedule 1 confers on the Ministers named—in this case the Treasurer—power to determine the conditions under which payments to the states, territories and local governments may be made, and the amounts and timing of those payments

Schedule 2 contains the detail of appropriations.

Concluding comments

In terms of the fiscal stimulus the housing component of the Economic Security Strategy will impart to the Australian economy, it is likely that the newly-constructed home element will have a greater effect than the element for established houses. This is mostly because it more directly targets the home construction industry, but it is also partly due to the grant for newly-constructed homes being larger ($21 000 versus $14 000). In contrast, the established houses element will increase demand for the stock of established houses. All other things being equal, this would tend to push up the price of established houses. While this may stimulate demand for newly-constructed houses, the effect is indirect.

The overall stimulus resulting from the First Home Owners Boost will depend in significant part on strength of those factors which are behind the fall in demand for housing and hence any possible general fall in house prices. Any stimulatory impact will also be influenced by the split between first home buyers' demand for established versus newly-constructed houses.

It also needs to be remembered that in the broader context the demand for housing and home purchase affordability should be considerably boosted by the recent, large reductions in interest rates.