



3 August 2010

Our Ref: GOV03

RELEASE OF COSTING OF ELECTION COMMITMENT

The Secretary to the Department of Finance and Deregulation today released the following election commitment costing under the *Charter of Budget Honesty Act 1998*:

Cleaner Car Rebate as announced by the Government.

This costing was completed consistent with the *Charter of Budget Honesty: Costing Election Commitments* guidelines which are available on www.electioncostings.gov.au.
A copy of the completed costing is attached.

A handwritten signature in black ink, appearing to read 'D. Tune'.

David Tune
Secretary
Department of Finance and Deregulation

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PUBLIC RELEASE OF 2010 ELECTION COMMITMENT COSTING

Summary of costing:	The Australian Labor Party would provide a rebate of \$2,000 to eligible participants who trade in their pre-1995 vehicle and purchase a new, more efficient vehicle. An eligible new vehicle must be a passenger vehicle with a minimum Green Vehicle Guide Greenhouse rating of six or higher.
Person making the request:	Prime Minister
Date of request:	27 July 2010
Name of policy to be costed:	Cleaner Car Rebate
Date of public release of policy:	24 July 2010
Costing request provided by the Prime Minister/Leader of the Opposition:	Prime Minister
Additional information requested (including date):	Not applicable
Additional information received (including date):	Not applicable

Financial implications (outturn prices)^(a)

Impact on	2010-11	2011-12	2012-13	2013-14
Underlying Cash Balance (\$m)	-103.3	-122.6	-118.5	-84.7
Fiscal Balance (\$m)	-103.4	-122.8	-118.7	-84.8

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Where relevant, state that the proposal has been costed as a defined or specified amount.

The proposal has been costed as a demand driven program up to the specified cap of 200,000 vehicles over four years.

Where relevant, include separate identification of revenue and expense components.

Not applicable

Where appropriate, include a range for the costing or sensitivity analysis.

The costing is sensitive to the number of vehicles purchased, up to the cap of 200,000

vehicles. Finance estimates that the cap of 200,000 vehicles will be reached within the four years of the program. However, in the event the cap is not reached, the estimated cost would be reduced by a little over \$2.0 million for every 1,000 vehicles less than the cap (including departmental expenses).

The profile of estimated expenses over the four years is sensitive to the assumptions that are made regarding the take-up of the rebate where an individual is induced by the rebate to purchase an eligible vehicle.

Qualifications to the costing (including reasons for the costing not being comprehensive).

Comprehensive national data on how owners of pre-1995 vehicles dispose of and replace their cars was not able to be identified.

Evidence from similar schemes in other countries was examined but the varying features (and varying economic conditions in which they each operated) make it difficult to draw direct parallels to what the experience might be in Australia.

No attempt was made to determine the number of pre-1995 vehicles registered in Australia that have participated in the Government's LPG Scheme. Vehicles that were fitted with LPG under the LPG Scheme will not be able to access this program.

The definition of "Passenger Vehicle" under the ABS Cat. No. 9314.0, which excludes SUVs, has been used to determine the number of pre-1995 vehicles.

It has been assumed that the costs of scrapping vehicles traded in under the proposal will be met by motor vehicle dealers, although Finance notes the arrangements for scrapping are to be determined following consultation with industry.

Where relevant, explain effects of departmental expenses.

The total departmental expenses for delivery of the Cleaner Car Rebate is estimated to be \$29.7 million over four years, with a breakdown between agencies of \$8.8 million for AusIndustry, \$15.6 million for Centrelink, \$3.2 million for Medicare and \$2.2 million for the Department of Climate Change and Energy Efficiency.

The departmental expense for AusIndustry is derived from analysing similar policy initiatives with similar demand-driven parameters.

The departmental expenses for Centrelink and Medicare are based on them receiving and processing applications and providing payments.

The departmental expense for Department of Climate Change and Energy Efficiency is based on a judgement regarding resources required for policy oversight.

Where relevant, explain the reason for any significant differences between the assumptions specified in a party costing request and those used in a Treasury or Finance costing.

The total estimated cost of the program is \$429.7 million over four years, compared to \$394.2 million in the costing request.

The total estimated administered cost of the program is \$400.0 million over four years, which is approximately \$44 million higher than that put forward in the costing request. The explanation for this difference is that Finance considers the cap of 200,000 vehicles over four years will be reached whereas the costing request assumes a slightly lower take-up.

The total estimated departmental cost of the program is \$29.7 million over four years, as outlined above. This is approximately \$13 million less than the \$40 million put forward in the costing request.

Other comments (including reasons for significant differences between the estimated impact on the fiscal and underlying cash balances).

Not applicable

Background information

Costing methodology used:

Costing techniques.

The take-up rate of the Cleaner Car Rebate has been calculated as a combination of two factors:

- the proportion of pre-1995 vehicles that reach the end of their useful life during the next four years and are replaced by vehicles eligible for the rebate; and
- the number of pre-1995 vehicles that are replaced by eligible vehicles as a result of owners being induced by the rebate.

The methodology for costing the first factor is:

- estimate the number of pre-1995 vehicles in Australia in 2011 by using data for 2005 from the ABS's 2009 Motor Vehicle Census and applying an average annual rate of attrition;
- estimate the number of pre-1995 vehicles that reach the end of their useful life and need to be replaced each year from 2011;
- make an assumption about the proportion of these vehicles reaching the end of their useful life that would be replaced by eligible new vehicles; and
- make an assumption that, given there will be a period of approximately four months between the outcome of the election and the commencement of the program, there will be some level of delayed pent-up demand in early 2011.

The methodology for costing the second factor is:

- an assumption of the proportion of vehicles remaining in the stock of pre-1995 vehicles (estimated to be approximately 3.5 million in 2011) that will be replaced by a new eligible vehicle even though they have not yet reached the end of their useful life.

Statistical data used.

New vehicle sales for 2009 from the VFACTS National Report.

ABS Cat. No. 9309.0 Motor Vehicle Census 2009, Australia.

ABS Cat. No. 9314.0 Sales of New Vehicles, Australia June 2010.

Behavioural assumptions used (as appropriate).

In estimating the delayed pent up demand from the latter months of 2010, Finance has assumed that owners delay the replacement of half the vehicles that reach the end of their useful life in the second half of 2010 until 2011 to be eligible for the rebate.

In estimating the number of vehicles from the stock of pre-1995 vehicles that are traded in as a result of this program (i.e. induced) Finance has assumed that 1 per cent of the stock is traded in for the purchase of a new vehicle under the scheme (i.e. approximately 35,000 vehicles). This assumption is intuitive and likely to be conservative. In the

event that actual take-up is higher, Finance would expect this to result in a change in the profile of expenditure but not total expenditure over the four years (because of the 200,000 vehicle cap).