

COMMONWEALTH GRANTS COMMISSION (CGC) 2010 REVIEW

COMMISSION POSITION PAPER 2008/10

MINING REVENUE

NEW SOUTH WALES TREASURY COMMENTS

MARCH 2009

NSW Treasury agrees in general with the Commission's proposals. NSW Treasury notes the Commission's proposed assessment for this category largely reflects the existing method of assessment.

NSW Treasury notes, however, that on the basis of the data in Table 8 for 2005-06, the outcome of the proposed assessment would be very different for a number of States. Victoria would lose around \$40 million and New South Wales around \$20 million while Western Australia and the Northern Territory would each gain around \$30 million.

The fundamental changes in the assessment method do not appear so large as to justify variations of this magnitude in the outcome.

NSW Treasury suggests that categorising heat coal in the high royalty mineral group is not justified, given its average royalty rate of around 3-4 per cent. We consider this classification overestimates assessed revenue from heat coal. NSW Treasury considers that, like uranium, heat coal would be better classified in the relatively low royalty mineral group. This classification is justified if the Commission's intention is to classify minerals according to their average royalty rates. It produces a redistribution result, on the basis of 2005-06 data, more in keeping with the current assessment.

The Commission intends assessing the Mining revenue category using:

- value of production for "energy" minerals
- value of production for "non-energy" minerals and
- actual revenues for grants in lieu of royalties for Western Australia and the Northern Territory.

In the assessment, the Commission proposes to source data from the Australian Bureau of Statistics (ABS) and the State mines departments. The latter will be used to split the ABS GFS data on total mining revenue between energy and non-energy minerals.

“Energy” and “non-energy” categorisation of minerals

The 2004 Review method for mining revenue used value of production as the revenue base for most components of mining revenue (oil and gas, heat coal, export open cut coal, export underground coal and value based minerals). The exceptions were grants in lieu of royalties and shared petroleum revenue (where actual revenue was used) and minerals where royalties were based on volume (where volume of production was used).

One change in the proposed 2010 Review assessment is that value of production will also be used for volume based minerals. This puts this mineral category on a par with other mineral categories and simplifies the assessment. It affects only a minor part of the assessment: volume based mineral royalties accounted for 0.6 per cent of mining revenue on average over the five years 2002-03 to 2006-07.

Another change in the proposed 2010 Review assessment is to group minerals into a smaller number of categories (energy, non-energy and grants in lieu of royalties) rather than the former oil and gas, heat coal, export open cut coal, export underground coal, value based minerals, volume based minerals and grants in lieu of royalties.

The inclusion of uranium in the non-energy (lower average royalty rate) category will have little if any practical effect. Previously uranium seems to have been included in the value based minerals group, which had a relatively low average royalty rate.

It is somewhat surprising then that these fairly minor changes produce such a large change in the outcome of the assessment. On the basis of the data in Table 8 of CGC 2008/10, compared to the 2005-06 outcome of this assessment in the 2008 Update, there are large variations for a number of States (see Table 1, line J). Victoria loses around \$40 million, New South Wales around \$20 million and Western Australia and the Northern Territory gain around \$30 million each.

Table 1: Mining revenue category factor, proposed compared with U2008 assessment, 2005-06

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
Proposed assessment¹									
A. Population	6,788,983	5,090,985	4,048,855	2,038,605	1,560,479	488,468	332,238	208,721	20,557,334
B. Assessed revenue (\$m)	644.6	77.5	1,468.4	1,595.1	155.0	39.0	0.0	51.9	4,031.5
C. Assessed revenue per capita (\$) [B/A]	94.95	15.22	362.67	782.45	99.33	79.84	0.00	248.66	196.11
D. Assessed difference per capita (\$) [C total - C]	101.16	180.89	-166.56	-586.34	96.78	116.27	196.11	-52.55	0.00
E. Assessed difference (\$ m) [D x A]	686.8	920.9	-674.4	-1,195.3	151.0	56.8	65.2	-11.0	1,880.7
2008 Update assessment²									
F. Assessed revenue (\$m)	624.5	37.1	1,487.4	1,630.8	143.1	26.9	0.0	81.6	4,031.5
G. Assessed revenue per capita (\$) [F/A]	91.99	7.29	367.35	799.97	91.73	55.07	0.00	391.15	196.11
H. Assessed difference per capita (\$) [G total - G]	104.12	188.82	-171.24	-603.86	104.38	141.04	196.11	-195.04	0.00
I. Assessed difference (\$ m) [H x A]	706.9	961.3	-693.3	-1,231.0	162.9	68.9	65.2	-40.7	1,965.1
Difference in assessment methods: proposed assessment less 2008 Update assessment									
J. Total difference (\$m) [E - I]	-20.1	-40.4	19.0	35.7	-11.9	-12.1	0.0	29.7	
K. Difference per capita (\$) [D - H]	-2.96	-7.93	4.68	17.53	-7.60	-24.77	0.00	142.49	

¹ CGC 2008/10, Table 8.² 2008 Update, Working Papers, Volume 2, *Mining Revenue*, Table 11, p. 16.

This variation is not due to the change in the treatment of volume based minerals. As noted above, that group accounts for less than 1 per cent of revenues. New South Wales' category factor in that group in the 2008 Update, in any case, was above one, so transferring it to a grouping where New South Wales' category factor is below one should marginally reduce, rather than increase, New South Wales' total category factor.

The variation appears to have more to do with the proposed categorisation of the minerals into the "energy" and "non-energy" mineral groups.

The "energy" group – where average royalty rates are above 6 per cent – includes all types of coal. According to data from the 2008 Update, heat coal has an average royalty rate in the range 3.4-4.1 per cent in the years 2002-03 to 2006-07. Classifying heat coal in the same group as high royalty minerals therefore could overestimate assessed revenue from heat coal.

Table 2: 2008 Update assessment for 2005-06 (excluding volume based minerals)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
Grants in lieu									
Assessed revenue \$ m	0.0	0.0	0.0	660.8	0.0	0.0	0.0	3.3	664.1
Oil & gas									
Production \$ m	0.0	1.0	839.9	216.0	1,000.8	0.0	0.0	82.5	2,140.2
Revenue \$ m									156.0
Average rate %									7.29
Assessed revenue \$ m	0.0	0.1	61.2	15.7	72.9	0.0	0.0	6.0	156.0
Heat coal									
Production \$ m	1,802.0	845.4	1,168.4	299.1	55.7	24.6	0.0	0.0	4,195.2
Revenue \$ m									154.0
Average rate %									3.67
Assessed revenue \$ m	66.1	31.0	42.9	11.0	2.0	0.9	0.0	0.0	154.0
Export open cut coal									
Production \$ m	4,778.0	0.0	13,153.4	0.0	0.0	0.0	0.0	0.0	17,931.4
Revenue \$ m									1242.3
Average rate %									6.93
Assessed revenue \$ m	331.0	0.0	911.3	0.0	0.0	0.0	0.0	0.0	1,242.3
Export underground coal									
Production \$ m	1,951.0	0.0	2,564.1	0.0	0.0	0.0	0.0	0.0	4,515.1
Revenue \$ m									301.7
Average rate %									6.68
Assessed revenue \$ m	130.4	0.0	171.3	0.0	0.0	0.0	0.0	0.0	301.7
Value based minerals									
Production \$ m	2,872.5	149.5	9,743.8	30,531.3	2,053.9	836.8	0.0	2,345.5	48,533.3
Revenue \$ m									1491.9
Average rate %									3.07
Assessed revenue \$ m	88.3	4.6	299.5	938.5	63.1	25.7	0.0	72.1	1,491.9
TOTAL ASSESSED REVENUE \$ m									
	615.8	35.7	1,486.2	1,626.0	138.1	26.6	0.0	81.4	4,010.0

Table 2 calculates assessed revenue for mineral categories (except for volume based minerals) for 2005-06 based on 2008 Update data. It is consistent with the results shown in Tables 8-10 of the CGC's 2008 Update Working Paper on Mining Revenue, except for the exclusion of volume based minerals. Volume based minerals are not included because data on their values of production are not available in the 2008 Update data.¹

¹ CGC, *2008 Update of State Revenue Sharing Relativities*, Working Papers, Volume 2. It should be possible to calculate the value of production for volume based minerals from the excess of 2005-06 total values of production in CGC 2008/10 over values of production in the 2008 Update. However, for several States the CGC 2008/10 total values of production for 2005-06 are less than total values of production in the 2008 Update. Revisions to data may have made the data inconsistent between the two sources for reasons other than the inclusion of the value of production of volume based minerals in CGC 2008/10. For that reason we have excluded volume based minerals from the comparisons of the proposed assessment and the 2008 Update assessment that follow and used 2008 Update data to provide consistency in the comparison.

Table 3 calculates, for 2005-06 based on 2008 Update data, assessed revenue (with volume based minerals excluded) for the mineral categories proposed in CGC 2008/10. (It differs from Table 7 in CGC 2008/10 because it uses 2008 Update data for value of production and excludes volume based minerals.)

Table 3 shows the proposed assessment reduces assessed mining revenue (excluding volume based minerals) for Queensland by \$45 million and South Australia by \$7 million, while increasing assessed revenue for Victoria by \$23 million, New South Wales by \$22 million and Western Australia by \$7 million. In percentage terms, the changes in assessed revenue are largest for Victoria, South Australia and New South Wales.

Table 3: Proposed assessment based on 2008 Update data for 2005-06 (excluding volume based minerals)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
Grants in lieu									
Assessed revenue \$ m	0.0	0.0	0.0	660.8	0.0	0.0	0.0	3.3	664.1
Energy minerals: all coal, onshore oil and gas									
Production \$ m	8,531.0	846.4	17,725.8	515.1	1,056.5	24.6	0.0	82.5	28,781.9
Revenue \$ m									1854.0
Average rate %									6.44
Assessed revenue \$ m	549.5	54.5	1,141.8	33.2	68.1	1.6	0.0	5.3	1,854.0
Non-energy minerals: value-based minerals									
Production \$ m	2,872.5	149.5	9,743.8	30,531.3	2,053.9	836.8	0.0	2,345.5	48,533.3
Revenue \$ m									1491.9
Average rate %									3.07
Assessed revenue \$ m	88.3	4.6	299.5	938.5	63.1	25.7	0.0	72.1	1,491.9
TOTAL ASSESSED REVENUE \$ m	637.8	59.1	1,441.3	1,632.5	131.2	27.3	0.0	80.7	4,010.0
CHANGE IN ASSESSED REVENUE: PROPOSED LESS 2008 UPDATE									
\$ m	22.0	23.4	-44.9	6.5	-6.9	0.7	0.0	-0.7	0.0
Change %	3.6	65.6	-3.0	0.4	-5.0	2.6	0.0	-0.9	0.0

Table 4 disaggregates the assessment categories proposed in CGC 2008/10 (shown in Table 3) into constituent parts for 2005-06 comparable to the 2008 Update. It uses the value of production revenue bases from the 2008 Update for the individual mineral components combined with the average royalty rates, as calculated in Table 3, for the new categories proposed in CGC 2008/10.

increases total assessed revenue in heat coal by \$116 million, or 75.5 per cent. New South Wales' assessed revenue in heat coal is increased by \$50 million, Queensland's by \$32 million and Victoria's by \$23 million. The increases for New South Wales and Queensland are offset (in Queensland's case much more than offset) by reduced assessed revenues in open cut coal.

This analysis clearly suggests that heat coal is misclassified in the "energy" group and artificially increases assessed mining revenue for a number of States.

If the Commission's intention is to classify minerals to the "energy" and "non-energy" groups according to their average royalty rates,² it would be appropriate to classify heat coal as "non-energy". (Whether or not this is done, if the criterion for placement in groups is average royalty rate rather than use of the mineral, it may be less confusing to name the groups something like "high royalty rate" and "low royalty rate" rather than "energy" and "non-energy".)

Classifying heat coal as "non-energy" or "low royalty rate" would produce a category assessment (excluding the previously volume based mineral component) as shown in Table 6. The outcome of the assessment is much more in line with the previous assessment (compare the penultimate line of Table 6 with line J of Table 1). NSW Treasury considers this appropriate given the underlying similarity of the assessment methods.

² CGC 2008/10, para. 19

**Table 6: Mining revenue category factor, alternative compared with U2008 assessment, 2005-06
(excluding former volume based component)**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	TOTAL
Relatively high royalty rate minerals: oil and gas, export open cut coal, and export underground coal									
Value of production									
\$ m	6,729.0	1.0	16,557.4	216.0	1,000.8	0.0	0.0	82.5	24,586.7
Revenue \$ m									1700
Average rate %									6.91
Assessed revenue									
\$ m	465.3	0.1	1,144.8	14.9	69.2	0.0	0.0	5.7	1,700.0
Relatively low royalty rate minerals: heat coal, value based minerals									
Value of production									
\$ m	4,674.5	994.9	10,912.2	30,830.4	2,109.6	861.4	0.0	2,345.5	52,728.5
Revenue \$ m									1645.9
Average rate %									3.12
Assessed revenue									
\$ m	145.9	31.1	340.6	962.4	65.9	26.9	0.0	73.2	1,645.9
Grants in lieu component									
Assessed revenue									
\$ m	0.0	0.0	0.0	660.8	0.0	0.0	0.0	3.3	664.1
TOTAL ASSESSED REVENUE \$ m									
	611.2	31.1	1,485.4	1,638.1	135.0	26.9	0.0	82.2	4,010.0
Assessed revenue per capita (\$)	90.02	6.11	366.88	803.54	86.54	55.05	0.00	393.91	195.06
Assessed difference per capita \$	105.04	188.95	-171.82	-608.47	108.52	140.02	195.06	-198.85	0.00
Assessed difference \$ m	713.1	961.9	-695.7	-1,240.4	169.3	68.4	64.8	-41.5	1,977.6
2008 Update assessment, 2005-06, excluding volume-based component									
TOTAL ASSESSED REVENUE \$ m									
	615.8	35.7	1,486.2	1,626.0	138.1	26.6	0.0	81.4	4,010.0
Assessed revenue per capita (\$)	90.71	7.01	367.08	797.63	88.52	54.51	0.00	390.06	195.06
Assessed difference per capita \$	104.35	188.05	-172.01	-602.56	106.55	140.55	195.06	-194.99	0.00
Assessed difference \$ m	708.4	957.4	-696.5	-1,228.4	166.3	68.7	64.8	-40.7	1,965.5
Difference in assessments: alternative 2010 proposal less 2008 Update (excluding volume based component)									
Total difference \$ m	4.7	4.6	0.8	-12.0	3.1	-0.3	0.0	-0.8	
Difference per capita \$	0.69	0.90	0.20	-5.91	1.97	-0.54	0.00	-3.86	

As noted earlier, NSW Treasury has excluded the volume based mineral component from this analysis only for the purposes of comparison of the two assessment methods. This is necessary for the comparison since we do not know the value of production in the volume based component. Like the CGC, NSW Treasury envisages the previously volume based minerals component would be included in the “non-energy” or “low royalty rate” group in the proposed 2010 Review assessment.

Uranium

New South Wales Treasury notes the Commission's intention to assess uranium as part of the non-energy group as the royalty rates are closest to the average of the non-energy group. As already noted, NSW Treasury considers the same consideration applies to heat coal.

Construction materials

NSW Treasury also notes the Commission's view to include construction materials in the assessment. Even though its inclusion did not have a material effect on the result, its removal would complicate the assessment unnecessarily. It seems appropriate to categorise construction materials in the non-energy (low royalty) group.

Sources of value of production data

New South Wales Treasury notes the Commission's intention to use ABS value of production data. We note the ABS's advice that its value of production data is commodity centred, and that remaining State comparability issues in relation to energy minerals are minor.

Sources or revenue data

The Commission's intention to use ABS GFS data to maintain consistency with other revenue assessments is understandable. Since the ABS does not split the revenues between energy and non-energy minerals, the Commission intends to make the split using data from State mines departments.

Outstanding issues

New South Wales Treasury notes the Commission's continuing work on managing the remaining issues on Tasmania's coal data confidentiality and the timing of data availability for the last year in the assessment period.