



Queensland
Government

Queensland Treasury

Our Ref: 04372-2016
Your Ref: 2016/0100

Mr M Willcock
Secretary, Commonwealth Grants Commission
Phoenix House, First Floor
86-88 Northbourne Avenue
BRADDON ACT 2612

Michael
Dear Mr Willcock

Thank you for inviting Queensland Treasury's input into the work program for the Commission's 2020 Methodology Review. We appreciate the importance of the Review to maintaining the fair distribution of the GST, and will give the Review our full support.

In particular, we support a comprehensive review of all aspects of the Commission's methodology, including examination of the supporting principles and a 'clean slate' consideration of particular assessments. Our responses to your specific questions are attached to this letter.

It will be important for the Commission and the States to engage meaningfully over the course of the Review. State visits can help build the Commission's appreciation of 'what States do', and I look forward to welcoming the Commission and its staff on a visit to Queensland. However, it would also be valuable to consider new ways of interacting, including workshops to facilitate more efficient discussions. We would happily host such a workshop here in Brisbane.

We look forward to working with the Commission on the Review over the coming years.

If you require further information please contact Mr Stephen Hallyburton, Team Leader, Intergovernmental Relations at stephen.hallyburton@treasury.qld.gov.au or on (07) 3035 1475.

Yours sincerely

Jim Murphy
Under Treasurer

Encl. *23/1/17*

Queensland Treasury responses to the Commission's questions

1. *Should the review begin with a reconsideration of 'whether the supporting principles the Commission uses to guide its work remain appropriate, including whether new principles should be adopted and whether different weights should be given to different supporting principles'?*

Response:

Queensland Treasury supports a full review of the appropriateness and relevance of the supporting principles and the current assessment framework. The Commission has a well-developed set of supporting principles, but the mechanisms for exercising judgements and weighing competing principles are comparatively less well understood. A reconsideration of the supporting principles would help bring clarity and transparency to the Commission's processes, and set the scene for the more technical aspects of the Review.

2. *What is meant by a 'comprehensive review of methods'? Does this mean that once the supporting principles have been settled, the Commission should begin with a clean slate as it did in the 2010 Review and ask what functions and related transactions of States are relevant to their fiscal capacity, how they should be grouped for assessment purposes and how they should be assessed? Or should the Commission start with the present scope and structure of assessments and make adjustments consistent with the revised supporting principles?*

Response:

Queensland Treasury supports a clean-slate Review process that revisits the functions and related transactions of the States that are relevant to their fiscal capacity. This is consistent with the notion of a 'comprehensive' review and ensures small but material issues are not overlooked. While we are conscious that this may increase the resources required to conduct the Review, we believe there will be consensus on most straightforward issues, allowing the Commission and the States to come quickly to a set of assessment categories and identify which assessments and disabilities are more contentious. The Review could then focus on those contentious issues with more comfort that no fundamental matters have been missed for want of a clean-slate approach.

3. *Reviews have generally been conducted using an iterative process, with the Commission taking the lead in defining HFE principles and assessment methods, followed by the States' providing feedback on the proposed approaches, leading to amended Commission views and so on. Should this review adopt the same iterative process or do States consider alternative approaches, for example with States' taking a lead role in some instances, for example the development of assessments, would result in an improved HFE outcome?*

Response:

Queensland Treasury supports the current iterative process and believes that the Commission is best placed to lead all aspects of the Review, owing to the Commission's:

- extensive knowledge and expertise;
- greater resources than state CGC teams; and
- independence and impartiality.

Naturally, it is the responsibility of any State seeking a change to a particular assessment methodology to present a compelling conceptual case and relevant supporting data, and to propose a practical methodology. However, the Commission will have to ensure the final methodology adopted is the one most likely to achieve genuine horizontal fiscal equalisation.

4. *Are there particular issues States would like to see the Commission explore?*

Response:

As discussed, Queensland Treasury supports a comprehensive clean-slate Review. That said, issues particularly important to Queensland include:

- remoteness;
- indigeneity;
- natural disaster expenses and funding (NDRRA);
- treatment of mining revenue;
- wages assessment;
- treatment of revenue from asset sales;
- administrative scale;
- urban centre size; and
- consistency of data reporting across assessments and across States.

We look forward to working closely with the Commission and other States to ensure these and any other issues are addressed appropriately.

5. *Most States have said they would encourage the Commission to visit their State for discussions on a range of matters. Would you want the Commission to visit your State during the review? When during the review would you want the Commission to visit and what is the rationale of this timing? How would the Commission expect to gain guidance in the development of its methods through a visit to your State?*

Response:

Queensland Treasury encourages the Commission and its staff to visit Queensland during the Review. A visit after the supporting principles have been settled and assessment categories broadly identified, but before the methodology is too developed, would be a valuable opportunity for the Commission to build its understanding of the challenges and difficulties associated with delivering services in Queensland. We expect that the experiences gained in a state visit would help inform the Commission and its staff in exercising judgements in assessments. 'What States do' is an integral part of the Commission's processes. There is no better way for the Commission staff to understand what States do than to visit the States and see it first-hand. State visits would also be an opportunity for the Commission and its staff to discuss issues arising in the Review in a less formal setting.

6. *A draft report will be part of the process. In recent reviews the Commission has produced this in the June of the year before the final report. This gives the Commission sufficient time to develop well-considered methods, the States time to comment on the proposed assessments, and the Commission time to react to those comments, including advising States of any major changes since the draft report. Do you have any particular views on this process?*

Response:

Queensland Treasury supports a draft report being issued as early as is practical, while still being sufficiently developed that substantial changes between the draft and final are unlikely. A draft report in June of the year before the final report would be acceptable, but if it were any later than this it may create practical difficulties for the States. In between the draft and final reports, States will be analysing the proposed new methodology, including consideration of the conceptual case for new assessments and exploring the availability of new data to support new assessments. Given the complexity and scale of these tasks, the earlier the draft report is issued the higher the quality of States' input into the final report is likely to be.

7. *What other types of meetings should be held between the Commission and State representatives, Commission staff and State representatives? For example, should there be a multilateral meeting between the Commission and Heads of Treasury to discuss the supporting principles and how they might interact? Could third parties, such as academics, play a role at such a gathering? Should there be meetings between State and Commission staff to help States understand the assessments set out in the draft report?*

Response:

Queensland Treasury believes that the Review will benefit from States' feedback and input at different levels at different times. At the Heads of Treasuries (HoTs) level, we consider the best approach would be for the Chair and Secretary of the Commission to attend one of the scheduled HoTs meetings early in the Review, to give a presentation on key issues and the Review process and to canvass high-level feedback from HoTs. This presentation could help build HoTs' understanding of the process, allow them to provide input and highlight any priorities for the Review.

We support an open Review process, as far as is practical. This may include consultation with academics and other experts, whose input may be valuable for the development and refinement of specific assessments (as demonstrated by the recent work of academics on elements of the wages assessment). Experts and non-governmental organisations may be well placed to contribute to a greater understanding of how States deliver services. However, expertise on horizontal fiscal equalisation lies primarily with the Commission itself, so advice and support from academics and experts should not generally be expected to determine if a proposed methodology will achieve equalisation.

We propose that traditional processes such as new issues papers and staff research papers could be supplemented by workshops conducted by the Commission. Traditional processes are appropriate for investigating issues comprehensively, but they can sometimes be administratively arduous, with lengthy intervals between dissemination, state comments and finalisation. Workshops involving all jurisdictions to discuss key issues, facilitated by the Commission and hosted by volunteering States, could be more efficient mediums for the States to present their views to the Commission and vice versa. This process should foster constructive dialogue, allowing all jurisdictions to get through more detail quickly and engage directly with Commission staff on issues as they arise. For example, workshops could be held early in the Review process to discuss the more complex and contentious assessments and disabilities, and then again after the release of the draft report to help ensure common understanding of any new assessments. Queensland Treasury would be pleased to host a workshop in Brisbane at a suitable time.