Queensland Government

New issues for the 2019 Update

Queensland response

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1.0 Queensland's position

Queensland supports:

- Assessing royalties from Lithium mining in the other minerals component
- Assessing royalties from reassessments from years prior to the current inquiry as equal per capita (EPC)
- Using the latest census data for disaggregated population sets for all category assessments
- Retain the 2015 methodology for the assessment of natural disaster relief and recovery arrangements expenses.

Queensland does not support:

- Assessing National Disability Insurance Scheme (NDIS) expenses as EPC. Transition timeframes have slipped and actual full scheme may not take place for some years. Queensland recommends the Commonwealth Grants Commission (Commission) maintain the current assessment methodology and reviews the process at a later update.

2.0 Mining revenue assessment

2.1 Treatment of lithium

Background

In the previous review (2015), the Commission decided to assess Mining revenue using a mineral by mineral assessment. If revenue for a mineral exceeds a threshold, it will be assessed separately. If it does not, revenues will be aggregated as Other minerals. Currently, lithium royalties are not separately assessed, but are assessed as part of the Other minerals component.

Western Australia's current forecast for lithium royalties exceeds $100 million for 2018-19, which would exceed nickel royalties and may trigger the materiality threshold.

The issue posed by CGC staff in this paper is whether the Commission should:

- change the structure of the Mining revenue assessment by removing lithium royalties from Other minerals and separately assessing them, or
- leave the structure of the Mining revenue assessment unchanged by continuing assessing lithium royalties as part of Other minerals.

CGC staff recommendation

The CGC staff recommend that the commission:

- continue to assess lithium royalties in the Other minerals component in the 2019 Update because it is not material to assess this revenue in a separate component.

Queensland position

Queensland supports.

2.2 Transfer pricing of minerals

Background

In May this year, Queensland settled a case with a mining company in relation to paying royalties on the price it sold coal to its Singapore trading subsidiary, which on sold to an end-user at a higher price. The case related to a tax bill covering the period 1 July 2005 to 31 December 2012. The tax reassessment comprised royalties of $186 million and interest of $102 million.

Generally, the CGC incorporates contested revenues in the relevant category. If a court subsequently rules against the State, the transaction (the value of the transaction and the revenue collected) is subsequently removed from the assessment.

CGC staff recommendation

The CGC staff have recommend that the commission:

- assess the royalty revenue received by Queensland in relation to a royalty reassessment equal per capita because they relate to years prior to the assessment years and an assessment of the revenue would not be material.

Queensland position

Queensland supports and notes that there will be no impact on the State's future GST relativities.

3.0 Use of final 2016 census data

Background

The final 2016 Census data from the Australian Bureau of Statistics became available in March 2018. Following this, many disaggregated population datasets in the Commissions assessments will be updated:

- SEIFA
- remoteness
- service delivery scale
- measures of local roads in unincorporated areas
- small isolated communities
- discrete Indigenous communities
- social housing use
- client base for Services to industry regional costs.

As a result, the data used for the 2019 Update will fully incorporate 2016 Census data and classifications.

The ABS have not produced projections of the Indigenous population based on the 2016 Census. In this update, the Commission will continue to use the approach for Indigenous population estimates used in the 2018 Update.

CGC staff recommendation

The CGC staff recommend that the commission:

- use 2016 Census based data for all category assessments.

Queensland position

Queensland supports.

4.0 Natural disaster relief expenses assessment

Background

CGC Staff have become aware that some states have reported local government net Natural Disaster Relief and Recovery Arrangements (NDRRA) expenses, in addition to state net expenses. The assessment should not recognise local government out of pocket expenses.

CGC staff recommendation

The CGC staff recommend that the commission:

- Retain the 2015 Review method for calculating natural disaster relief expenses for the 2019 Update and investigate the nature of natural disaster relief expenses for local government as part of the 2020 Review.

Queensland position

Queensland supports. States should be consulted any proposed changes through the 2020 Review process.

5.0 Treatment of National Disability Insurance Scheme (NDIS) related payments

Background

Seven states are scheduled to have reached full implementation of the NDIS by July 2019 and to fund it on a full implementation basis in 2019-20, which is the application year of the 2019 Update. This means that the Commission needs to review its assessment of disability services, which is currently based on NDIS transition arrangements.

A complication is that many States are experiencing a degree of slippage and, therefore, are not expecting to meet the full implementation date of July 2019.

CGC staff recommendation

The CGC staff recommend that the commission:

- assess NDIS expenses EPC using 2011 Census population numbers
- retain the current non-NDIS expense assessment.

Issues with the CGC staff's understanding and analysis

- Paragraph 24, "This approach reflected that during transition States would contribute a share (59.4%) of the care and support package costs for an agreed number of eligible participants each year."

It is Queensland's understanding that during transition states will pay this percentage based on the actual number of participants that have entered the scheme, with costs per participant based on the category they fall within.

- Paragraph 25, "After full implementation, States would fund NDIS disability services through contributions to the National Disability Insurance Agency".

Queensland's agrees with this statement, but notes that full implementation of the NDIS, in accordance with bilaterally agreed estimates, may not occur until several years into full scheme. As at 30 September, Queensland participant transition was 57% of bilateral estimates (55% excluding Early Childhood Early Intervention that was not included in bilateral estimates), as reported in the NDIS Quarterly Report – 30 September 2018.

- Paragraph 26, "The agreements include a temporary reduction based on the number of clients of State specialist disability programs yet to be transitioned to NDIS."

Queensland's view is that this statement is not correct. States do not get a discount for participants who have "yet to transition". The discount provision is calculated and applied in arrears, only when an existing client transition into the scheme within the discounting period (not for all those yet to transition). Further, this "discount" is based on the state's expenditure and not on the cost of their full NDIS contribution for that participant.

- Paragraph 27, "The agreements also contain a clause to limit the level of cash the NDIA can hold for the package costs for participants. If this maximum level is reached, the remaining funding contributions from the Commonwealth and the States for 2018-19 would be reduced."

Queensland is of the understanding that this is designed to only apply to those states who entered "full scheme" from 1 July 2018. These states are at "full scheme" a full year before other states who were scheduled to be at "full scheme". It is Queensland's understanding that this will be replaced by a reserve fund where all the extra money is held in reserve however the details of its operation have yet to be negotiated.

- Paragraph 30, "Victoria, Queensland, Tasmania and the Northern Territory would also be contributing on a full scheme basis, but with some adjustments for slippages. Based on New South Wales and South Australia's experience, we would expect these slippages to be small and addressed within the 2019-20 financial year."

Queensland does not agree with the CGC staff's analysis. Queensland is due to commence NDIS full scheme on 1 July 2019. However, participant numbers at the commencement of full scheme are expected to be significantly lower than those estimated in the *Bilateral Agreement between the Commonwealth and Queensland for the transition to an NDIS.* It is likely to be several years before Queensland's participant numbers more closely reflect these estimates.

Queensland position

Queensland notes that the NDIS represents a major change in federal financial relations and that the Commission should back-cast in these circumstances.

Queensland disagrees with the CGC staff's recommendation to assess NDIS expenses on an EPC basis using the 2011 census population numbers. This approach should not be adopted for the 2019 Update and may have implications for future Commission updates. There has been significant slippage in take up and it is likely to be several years before Queensland's participant numbers reflect expected estimates.

Queensland does not support the CGC staff's recommendation. Queensland recommends retaining the current methodology for the assessment—an actual per capita basis—until a time when full implementation of the NDIS has been achieved for Queensland and other states, in accordance with bilaterally agreed estimates.

6.0 Treatment of the transfer of ownership of Snowy Hydro Limited from States to the Commonwealth

Background

In March 2018, New South Wales and Victoria agreed to sell their shares of Snowy Hydro Limited (Ltd) to the Australian Government for $4.154 billion and $2.077 billion respectively. The Treasurer has foreshadowed an intention to direct the Commission to ensure the sale does not affect the relativities.

Even if the Commission does not receive instructions in the ToR about the treatment of the sale, the Commission would consider the transaction as an exchange of one financial asset for another (cash), with no change to States' net financial worth or fiscal capacities.

The CGC staff's view is that the sale of Snowy Hydro Ltd will not directly affect States' net financial worth or fiscal capacities. Staff consider that any ToR instruction to ensure the sale does not affect the relativities does not extend to second round effects, which would be difficult to implement.

CGC staff recommendation

The CGC staff recommend that the commission:

- does not need to take any action to ensure the sale of Snowy Hydro Ltd by New South Wales and Victoria to the Commonwealth Government because the transaction will have no direct effect on State revenue or net financial worth
- not make any adjustments to State expenditure to eliminate second round effects because it will be impractical to remove the spending from the adjusted budget.

Queensland position

Queensland supports.

7.0 Changes in the adjusted budget

7.1 Use of new Government Finance Statistics classification data

Background

For compiling states' actual revenue, expense and investment, the Commission uses the ABS Government Finance Statistics (GFS) for the first two assessment years and State provided data for the last assessment year.

In July 2017, the ABS moved to a new GFS framework — the Australian System of Government Finance Statistics 2015 (AGFS15).

CGC staff recommendation

The CGC staff recommend that the commission, for the compilation of the adjusted budget in the 2019 Update use AGFS05 data provided by the ABS for 2015-16 to 2016-17 and use AGFS15 data provided by the States for 2017-18.

Queensland position

Queensland supports.

7.2 Cease sending the preliminary adjusted budget to the States for comments

Background

CGC staff send preliminary adjusted budget data to States each year for comments usually in December. Most states provide comments and data are revised in some cases. However, any revisions are typically small. For this reason, CGC staff propose to cease sending the preliminary adjusted budget to the states from the 2019 Update. CGC staff will send questions to the states on specific datasets if needed.

CGC staff recommendation

The CGC staff recommend that the Commission cease sending the preliminary adjusted budget to the States for comments from the 2019 Update onwards.

Queensland position

Queensland does not support the CGC staff's proposal. Although staff have observed only minor data revisions, these are evidence that the process is useful and should be maintained. It aids transparency and supports quality assurance.

8.0 Treatment of new Commonwealth payments for specific purpose

Queensland's positions on the treatment of Commonwealth payments that Commenced in 2017-18 are set out in the table below. In summary, Queensland acknowledges and supports most of the CGC staff's proposed treatment of the Commonwealth payments outlines in Attachment A of the New Issues paper, which are either reasonable on a conceptual basis or are governed by the terms of reference.

Noting that: following the Australian Governments interim response to the PC's inquiry into HFE, Heads of Treasury's will review the principles of the treatment of Commonwealth payments and how they impact HFE outcomes.

Table 1 Treatment of Commonwealth payments commenced in 2017-18

Commonwealth Payment	Description	2017-18 $m	CGC proposed treatment	Reason for No impact treatment	QLD position
Health					
Health infrastructure					
Western Australia Hospitals Infrastructure package	This is a GST top-up payment to Western Australia. The payment is provided to support hospital expansions and refurbishment, to improve access and patient care by supporting the following hospital projects: • $158.0 million for Joondalup Health Campus expansion • $10.6 million for the Osborne Parks Hospital expansion • $20.3 million for the Royal Perth Hospital refurbishment.	188.9	No impact	Expected U2019 Terms of Reference requirement	Agreed based on the understanding that it will be included in the ToR.
Other health					
Electronic recording and reporting of controlled drugs	The payment will support the incorporation of State system enhancements into the national electronic recording and reporting of controlled drugs system.	0.8	Impact		Agree
Encouraging more clinical trials in Australia	The Commonwealth will provide funding to increase the number and value of clinical trials to deliver health benefits, provide jobs and improve the nation's innovative capacity.	2.5	Impact		Agree

Commonwealth Payment	Description	2017-18 $m	CGC proposed treatment	Reason for No impact treatment	QLD position
SKILLS AND WORKFORCE DEVELOPMENT					
Skilling Australians fund	The Commonwealth will support the training of Australians through a range of projects focused on skills priorities. These include training in occupations in high demand that currently rely on skilled migration, future growth industries, and rural and regional areas. There will also be a strong focus on apprenticeships and traineeships. States will provide matching funding.	237.3	Impact		Agree however if states have not signed the extension for future years, the staff should recommend that these be taken into consideration.
COMMUNITY SERVICES					
Payment from the DisabilityCare Australia Fund	The Commonwealth will provide funding to assist the States transition to the full scheme of NDIS in July 2019, through the payments from the DisabilityCare Australia Fund. The States will be able to draw down from the Fund when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme.	129.9	No impact	R2015 Terms of Reference requirement	Agree
Transition to NDIS in Western Australia	From 1 July 2018, Western Australia is transitioning to full scheme NDIS. The Commonwealth will support Western Australia to make progressive changes to roles, responsibilities and governance in delivering disability services from 1 July 2017.	63.8	No impact	R2015 Terms of Reference requirement	Agree
INFRASTRUCTURE					
Infrastructure Investment program —Developing Northern Australia — Improving cattle supply chains	Funding of $101.3 million over four years to improve cattle supply chains in the north, with a particular focus on road infrastructure. This funding will seek to improve the productivity and resilience of cattle supply chains in northern Australia.	4.5	Impact		Agree
Infrastructure Investment program — Rail investment component — Victorian Regional Rail Revival program	The program (total payment of $1.42 billion) will upgrade every regional rail line across Victoria. The works include: new and updated stations, track duplication, level and pedestrian crossings and signalling upgrades.	33.4l[1]	No impact	U2018 Terms of Reference requirement	Agreed based on the 2018 ToR.

[1] The figure is provided by Department of Infrastructure, Regional Development and Cities.

Commonwealth Payment	Description	2017-18 $m	CGC proposed treatment	Reason for No impact treatment	QLD position
Infrastructure Investment program — Road and Rail investment component — Perth Freight Link infrastructure funding	Perth Freight Link will significantly reduce transport costs for heavy vehicle users, boost freight efficiency and improve freight access to the Port of Fremantle. This project will complement existing road projects such as Gateway WA, the Tonkin Highway Grade Separations, and the Swan Valley Bypass. Note: of the $1.2 billion total funding, $792 million is allocated to Metronet in the Rail component and $498.7 million is allocated to the Road component of the Infrastructure investment program.	Rail 509.0 Road 66.2[2]	No impact	U2018 Terms of Reference requirement	Agreed based on the 2018 ToR.
WiFi and mobile coverage on trains	The program will establish mobile and internet connectivity along the train route between Hornsby and Wyong.	2.0	Impact		Agree
ENVIRONMENT					
Hydrogen energy supply chain (HESC) pilot program	The payment (total of $50 million) will fund a HESC pilot project to demonstrate the feasibility of a HESC involving preparation and gasification of brown coal, refining and liquefaction of hydrogen and the transport of liquid hydrogen to Japan. The project involves the construction of a gas refining plant in the Latrobe Valley and hydrogen liquefaction and loading facilities at the Port of Hastings. The pilot project will inform the commercial viability of a long-term HESC from Australia to Japan. The Victorian Government will match the Commonwealth's contribution.	10.0	No impact	Needs not assessed	Queensland supports this payment not impacting as the needs (business development in the services to industry assessment) are assessed on an EPC basis.
Kamay 250th anniversary project	Funding for the construction of a new commemorative monument and upgrade of infrastructure as part of the Kamay Botany Bay National Park, Kurnell Master Plan, to commemorate the 250th anniversary of Captain James Cook's landing at Kurnell.	25.0	Impact		Disagree as the expenditure needs (national parks) are not assessed.
National fire danger rating system	The Government will provide $0.7 million over two years from 2017-18 to the New South Wales and South Australian Governments to develop a National Fire Danger Rating System (NFDRS). The NFDRS will deliver nationally consistent fire danger ratings that use the best and latest available modelling and fire science. The funding is to develop the prototype of the NFDRS and to conduct social research regarding communicating fire danger information to the public.	0.5	No impact	Needs not assessed	Agree

[2] Figures provided by Department of Infrastructure, Regional Development and Cities. The payment for Perth Freight Link – rail component in 2017-18 was $513.3m, the figure shown in the table includes offset by a $4.3m reallocation (return) from a rail project.

Commonwealth Payment	Description	2017-18 $m	CGC proposed treatment	Reason for No impact treatment	QLD position
Water Infrastructure Development Fund — Capital component	Funding to build or augment existing water infrastructure, including dams, pipelines or managed aquifer recharge. This will help secure the nation's water supplies and deliver regional economic development benefits. This payment has two components — feasibility studies and capital components. The feasibility studies component is treated as having impact on relativities.	26.5	Impact		Agree
OTHER PURPOSES					
South Sydney Rabbitohs' Centre of Excellence	Funding of $10.0 million over three years to support the Centre of Excellence, which houses a community and administration centre, as well as a football development department with elite facilities. The Randwick City Council and the South Sydney Members Rugby League Football Club Limited will contribute $7.0 million over three years to this program, in addition to the contribution from the Commonwealth.	4.0	Impact		Agree
GENERAL REVENUE ASSISTANCE					
Commonwealth Assistance to the Northern Territory	The Commonwealth is providing general revenue assistance to the Northern Territory to offset the reduction in the Territory's GST share.	259.6	No impact	Similar to WA's GST top-up, expected U2019 Terms of Reference requirement	Agreed based on the understanding that it will be included in the ToR.