Submission to Commonwealth Grants Commission

2025 Review – New Issues November 2024

This submission responds to the New Issues Discussion Paper released by the Commonwealth Grants Commission (CGC), as part of its 2025 Review of the methods it uses to recommend GST grant distributions among the States and Territories (referred to as States hereafter), within the framework of horizontal fiscal equalisation (HFE).

Welfare – estimated resident population

The CGC has previously used populations aged 0-14 in this assessment as a proxy for populations aged 0-17, as the latter data were not available. As populations aged 0-17 are now available, we support the CGC proposal to use them.

Insurance Tax – missing data for September quarter 2023

Taxable insurance premiums data are missing for the September quarter 2023 due to the Australian Prudential Regulation Authority revising its reporting framework. The CGC proposes imputing the missing quarter for each State by using the September quarter proportion of that State's premiums averaged over the previous five years.

This proposal seems reasonable to us.

Mining Revenue – nickel royalties

Under CGC materiality guidelines, nickel has become immaterial for the average of the 2025 Review data years (and is projected to remain immaterial). Hence, the CGC will consider whether to continue a separate assessment of nickel or to absorb nickel into the Other Minerals component. The discussion paper does not propose a definitive position on this.

The CGC's current methods were determined in the 2015 Review, which stated:[1]

> *Our intention is to keep this structure until the next review. However, if there is a major change in circumstances, such that another mineral becomes material or one of the material minerals becomes immaterial, the Commission will exercise its judgment on whether HFE would be improved by changing the structure of the assessment.*

The 2015 Review structure assessed nickel separately, as it was material, but lithium was not assessed separately, as it was immaterial.

[1] Commonwealth Grants Commission, *Report on GST Revenue Sharing Relativities, 2015 Review, Volume 2 - Assessment of State Fiscal Capacities*, page 106, paragraph 14.

We consider the method description to be vague. It gives no guidance as to how the CGC will determine whether HFE would be improved when the materiality of a mineral changes.

Relevant decisions made by the CGC regarding reclassifying minerals on the basis of materiality were as follows.

- 2019 Update:
  - The CGC noted that budget projections of lithium royalties suggested that it might become material in the future, but did not assess it separately as it was not yet material.
  - Nickel was not material, but the CGC continued to assess it separately as they stated budget projections suggested that it would become material again (although looking back at the Western Australian State Budget projections, it is not clear how the CGC concluded this).
- 2020 Review – As nickel was not material, and was not likely to be in the foreseeable future, the CGC ceased assessing it separately.
- 2023 Update – As lithium was material (for the first time) and budget projections suggested it was likely to remain material, the CGC assessed it separately.
- 2024 Update – As nickel was material and budget projections suggested it was likely to remain material, the CGC assessed it separately.

Under these decisions, we note the following.

- The only inquiry in which a mineral was not assessed on the basis of its materiality during the data period of that inquiry was the 2019 Update, when nickel was not material but anticipated to become material again.
  - Lithium was not assessed separately until it actually became material (in the 2023 Update), despite the 2019 Update anticipating that it might become material.
- The CGC routinely examined whether or not minerals were material in budget projections, which was the only judgement to which it referred.
  - The CGC's publications did not discuss at any point how HFE would be improved by its decisions.

The 2025 Review Draft Report did not discuss materiality, but stated that the CGC "proposes to retain the 2020 Review mineral-by-mineral assessment method",[2] modified to split coal into three components and assess onshore oil and gas by volume in two components.

We note that the 2025 Review offers the CGC a good opportunity to utilise the changing materiality of nickel to consider how this aspect of the method works in practice.

We propose that the CGC replace the phrase "judgment on whether HFE would be improved" with something more defined and less ambiguous.

[2] Commonwealth Grants Commission, *2025 Methodology Review Draft Report*, *Mining Revenue*, page 76, paragraph 123.

This could refer to the use of budget projections, but with a more definitive description of how these are to be used (given it is not clear whether the CGC has used these consistently to date). We note that this would reduce the scope for the CGC's decisions to be contentious (if it does not separately assess a mineral that is currently material because it is projected to cease being material, and vice versa).

However, we also note that, in all other aspects, the CGC is averse to using projections.

Hence, a simpler approach would be to remove the reference to judgement and base the structure purely on whether minerals are material during the average of the data years. This would avoid any contention over whether the CGC had applied its judgements consistently.

The disadvantage of this is that the structure might change frequently. However, this is merely a practical issue, requiring CGC and Treasury staff to design their spreadsheets to be sufficiently flexible to accommodate this. As the minerals for which the assessment changed would be those that are less material, it should not involve major volatility.

In our submission in response to the Draft Report Mining Revenue chapter and addendum, we argued that the CGC should consider how it will apply materiality to components of coal and onshore oil and gas. It should ensure that it develops a consistent approach for both these and minerals such as nickel and lithium.

Commonwealth payments

Information sought by the CGC

The CGC requested information on the accounting treatment of two Commonwealth payments to determine whether they should be removed from expense data. The two payments are:

- private hospital viability payments made under the National Partnership on COVID-19 response; and
- disadvantaged independent schools payment.

We can confirm that the expenses associated with these payments would be included in the Western Australian data provided to the CGC.

- The National Partnership on COVID-19 payments, including private hospital viability payments, has been included in data returns prior to the 2025 Review.
- The disadvantaged independent schools payment commenced in 2023-24, as such it will be included in the 2025 Review data return onwards.

Revised treatment of existing Commonwealth payments

Although we do not agree with all the proposed methods in the CGC's 2025 Review Draft Report, we accept that the CGC has correctly identified changes in treatment of the associated Commonwealth payments. These changes would be required if the Draft Report methods are implemented.

Commonwealth payments commenced in 2023-24

We consider the CGC's proposed treatment of new Commonwealth payments to be reasonable. However, we wish to highlight the increasing number of Commonwealth payments that could be associated with the transition to net zero emissions.

Whilst the CGC's preliminary position for the 2025 Review Draft Report is to continue to investigate State spending on the net zero transition, we would like to take this opportunity to reiterate that the transition to net zero emissions should explicitly form part of the CGC's forward work program.

Whilst we have no concern with the proposed treatment of these payments under the current methods, we note the funding objective of the following agreements seem to be aligned with a transition to net zero emissions:

- ACT Sustainable Household Scheme;
- Borumba Pumped Hydro Project;
- Capacity Investment Scheme;
- Community Solar Banks Program; and
- Lansdown Eco-industrial Precinct.