



Queensland Treasury Response to Commonwealth Grants Commission Draft Report Attachment 18

Services to Industry

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SUMMARY OF QUEENSLAND'S POSITION

Queensland broadly supports the methodology proposed in the Commission's Draft Report for the assessment of the Services to Industry category. However, Queensland continues to have concerns regarding the comparability of survey responses, especially regarding the degree of subjectivity required by state agencies to interpret survey questions relating to location and the Commission's subsequent interpretation of state responses. Queensland acknowledges that to progress a differential assessment, the Commission will utilise the data available to it and apply the disability weightings developed from survey outcomes.

Queensland considers that differences in providing labour and non-labour resources to different areas within a state exist in this category and suggests the Commission apply its general regional location factor to recognise this disability.

Assessing differential expenditure needs for economic/business development activities on a policy neutral basis is very difficult, as is the identification of disabilities associated with these activities. As a result, Queensland supports the Commission's decision to assess business development expenses on an equal per capita basis (EPC) within this assessment.

Queensland's Position on Key Issues

Queensland has concerns about aspects of the Services to Industry methodology proposed in the Draft Report. The following suggestions may assist in improving the methodology:

- Conservative application of disability weights;
- Inclusion of the general regional location factor to recognise cost differences in providing labour and non-labour resources to different areas within a state; and
- Retaining the EPC assessment of business development expenses

PROPOSED METHODOLOGY

The Services to Industry category includes state expenses on the regulation and support of businesses and industries and some associated labour and other expenses. Some of these services are targeted to specific industries or sectors but others have a broader reach such as consumer protection. Expenses included in this category are those classified to Government Purpose Classifications (GPCs) of agriculture, forestry and fishing, fuel and energy, mining and mineral resources, manufacturing and construction, tourism and other economic affairs.

Expenses in this category relate to two broad categories – industry regulation and business development and support. The Commission intends to assess business development expenses on an equal per capita basis. It will assess regulatory expenses on a differential basis, based in part on the level of business activity and in part on the size of state population.

The proposed assessment is divided into two components:

- **Services expenses** – This component comprises 97.5 per cent of average expenses and is affected by interstate differences in the level of activity, the number of businesses and state populations which are combined in an economic environment factor, and interstate location effects; and
- **Other expenses** – This component comprises 2.5 per cent of average expenses including administrative scale, native title and land rights expenses.

The economic environment factor is based on two industry sectors; the agriculture, forestry and fisheries sector and the other industries sector. A disability based on factor income, business numbers and population is calculated for agriculture, forestry and fishing, and a disability based on factor income and population is calculated for other industries. The category economic environment factor was obtained by combining the disabilities for both industry sectors using their proportions of the total expenses in the category. Each state's assessed service expenses are obtained by applying its economic environment factor and the interstate location factor to its per capita share of expenses.

Other expenses are the combination of assessed administrative scale affected expenses and expenses faced by states due to the operation of the Commonwealth's native title and land rights legislation.

Each state's relativity is then determined by dividing its combined assessed service and other expenses per capita divided by the combined national assessed expense per capita.

ASSESSMENT APPROACH

Disability Weights

In past submissions Queensland has expressed concern regarding the comparability and reliability of the Services to Industry survey results, and the use of these data to construct robust disability weights for the proposed economic environment factor. However, in the absence of more suitable data to construct disability weights, Queensland acknowledges that the Commission has little option but to progress the disability weights proposed in the 2010 Review Draft Report.

As several states have expressed concerns regarding the application of survey results, the Commission should maintain its cautious approach when applying the disability weights.

Location

Queensland seeks some clarification on whether the Commission intends to assess the differences in providing labour and non-labour resources to different areas within a state for the Services to Industry category. Table 18-5 of the 2010 Review Draft Report (Attachment 18) identifies these additional costs are faced by states, yet the location factor presented in Tables 18-11 and 18-14 appears to reflect only the interstate location factor.

The 2010 Review Draft Report advises that evidence for a regional location assessment was inconclusive¹ and cited a lack of data on how the location of businesses and people affected costs. The principal data source to assess regional location impacts is the Commission's survey. In previous submissions, Queensland has raised several issues relating to the efficacy of the Commission's survey, particularly the lack of definition for various population centres². Results from the Commission's survey were never suitable as the data source to assess regional cost impacts due to the population centre definition problem. The survey data cannot be used to draw a conclusion on intrastate cost differences.

¹ CGC 2010 Review Draft Report Attachment 18 Paragraph 45

² Queensland raised this issue in its submission responding to Commission Position Paper CGC 2008/27.

Queensland contends the location of business and people do affect costs. For example, Department of Primary Industry inspectors do have to travel distances to inspect farms and provide assistance to farmers, while mine safety inspectors do have to travel to remote mines to ensure safety standards are met. The more dispersed business and populations are, the greater cost to state governments in delivering business regulation.

Where dispersed businesses and people clearly influence state government business regulation expenditure but survey formulation has resulted in data that is largely inconclusive, the Commission should apply its judgement, recognise the disability and apply its general regional location factor.

Business/Economic Development

In recent decades, states have pursued a range of economic development activities to increase their capacities to produce goods and services, and to raise productivity so that the overall welfare of the population is increased. States' strategies range from one-off infrastructure projects through industry policies to a mix of taxation and social policies.

Queensland provides industry assistance across all sectors, primary, secondary and services. Industry assistance can be capital investment for specific projects or broader infrastructure. Other forms of industry assistance include the provision of marketing services, funding for research and development and investment attraction.

Queensland also invests in social infrastructure, such as health, education, and law and order. These investments enhance Queensland's capacity for economic development and play an increasing role in Queensland's economic future.

There is a broadly defined average policy aimed at increasing economic development and growth in the states, which should be included in the scope of equalisation. However, as the Commission notes in the 2010 Review Draft Report, assessing differential expenditure needs for economic development activities on a policy neutral basis is very difficult, as is the identification of disabilities associated with these activities. As such, Queensland supports the Commission's decision not to differentially assess business development expenses within this assessment.