

# Commonwealth Grants Commission 2019 Update

Tasmanian Government Submission in response to:  
Staff Discussion Paper CGC 2018-04-S (*New Issues for the 2019 Update*)

23 November 2018



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# CONTENTS

<b>Mining Revenue Assessment - Treatment of Lithium Royalties</b>	<b>1</b>
<b>Mining Revenue Assessment - Transfer Pricing of Minerals</b>	<b>1</b>
<b>Use of 2016 Census Data</b>	<b>1</b>
<b>Natural Disaster Relief Expenses Assessment</b>	<b>2</b>
<b>Welfare Assessment — Treatment of NDIS Related Payments</b>	<b>2</b>
<b>Sale of Snowy Hydro Limited to the Commonwealth</b>	<b>3</b>
<b>Changes in the Adjusted Budget</b>	<b>3</b>
Use of New Government Finance Statistics Classification Data	3
Cease Sending the Preliminary Adjusted Budget to the States for Comments	3
<b>Treatment of New Commonwealth Payments Commenced 2017-18</b>	<b>4</b>
<b>Treatment of New Commonwealth Payments Commenced 2018-19 or 2019-20</b>	<b>4</b>



## Mining Revenue Assessment - Treatment of Lithium Royalties

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Staff propose to 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.

Western Australia's lithium royalties are forecast to exceed \$100 million by 2018-19 and are likely to be material if assessed as a separate mineral. Prior to that, lithium royalty levels were not material for the 2018 Update and the increase in royalties for 2017-18 would also not make a separate assessment material in the 2019 Update.

Commission Staff propose that lithium continue to be assessed in the other minerals component and not separated on a mineral by mineral basis for the 2019 Update. Future treatment of lithium royalties is to be considered as part of the 2020 Methodology Review.

Tasmania agrees with the Staff recommendation.

## Mining Revenue Assessment - Transfer Pricing of Minerals

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Staff propose to recommend that the Commission:

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

The additional revenues of \$288 million received by Queensland would normally be included in the relevant revenue category. However, given the confidentiality agreement at the centre of these transactions, it appears that the Commission would be unlikely to obtain the revenue and value data necessary to assess these revenues as coal royalties. In any event, the period to which the revenues relate is outside the 2019 Update assessment years, and relate to Commission Reviews and Updates beginning in 2007.

Tasmania therefore agrees with the Staff recommendation to assess the royalty revenue received by the Queensland Government from BHP as equal per capita.

## Use of 2016 Census Data

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Staff propose to recommend that the Commission:

- use 2016 Census based data for all category assessments.

Final 2016 Census data from the ABS is now available to allow the Commission to update a number of disaggregated population datasets in its assessments to fully incorporate 2016 Census data and classifications. The one exception to this is the projections of Indigenous population based on 2016 Census data which will not be available in time for the 2019 Relativity Update.

As the availability of 2016 Census data falls within the scope of data updates for annual relativity updates, Tasmania agrees with the Staff recommendation to use the 2016 Census based data for all category assessments, and use the same Indigenous population estimates used in the 2018 Update.

## Natural Disaster Relief Expenses Assessment

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Staff propose to 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.

Tasmania understands that Commission Staff requested revised data from the States on revenue and expenses for local government separately in relation to natural disaster relief expenses in order to separate State and local government expenditures in this area. However, Commission Staff have now decided to retain the 2015 Methodology Review approach for the 2019 Update; that is, to assess net State natural disaster expenses after making claims under Natural Disaster and Recovery Arrangements on an actual per capita basis, and consider the nature of local government natural disaster relief expenditures as part of the 2020 Review.

Tasmania agrees with the Staff recommendation on this issue.

## Welfare Assessment — Treatment of NDIS Related Payments

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Staff propose to recommend that the Commission:

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

In the 2015 Methodology Review, the Commission decided to assess State contributions to the NDIS as APC because the policies of all States were the same and any differences in NDIS contributions per capita were due to differences in State circumstances.

As the commencement of full scheme NDIS approaches, it has become clear that the number of people expected to transition to the NDIS by 2019-20 will be below original bilateral estimates. The decision to assess on an APC basis was on the basis that all States and Territories would reach their bilateral targets.

Due to lower than expected numbers, the States and Territories are negotiating for discounts to be applied to their respective fixed full scheme contributions, and, as the Commission acknowledges, the size and duration of discounts will vary between the States. Tasmania therefore agrees that, for 2019-20, State contributions will be policy influenced, and should be assessed on an EPC basis. Tasmania notes that by using 2011 State populations it will overcome above or below average per capita contributions to the NDIS arising from differential population growth between the States.

Tasmania therefore agrees with the Staff recommendation, but notes that, for 2020-21 and beyond, when this policy difference no longer exists, the assessment should revert to an APC basis.

Tasmania also supports the Commission Staff proposal to retain the current treatment of non-NDIS expenditure.

## Sale of Snowy Hydro Limited to the Commonwealth

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Staff propose to 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; and
- 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.

The sale of Snowy Hydro Limited to the Commonwealth by both New South Wales and Victoria represents an exchange of one asset (equity in Snowy Hydro) for another (cash) and will have no impact on the net financial worth or fiscal capacities of either New South Wales or Victoria.

The sale is conditional on both States using the proceeds to acquire 'productive infrastructure', an outcome that would affect expenditure by those States as a result of second round expenditure effects. Staff consider it impractical to attempt to remove this expenditure from the adjusted budget. In any event, the Commission may well receive direction from the Commonwealth Treasurer to ensure that the sale does not impact on relativities.

Tasmania considers the Commission's approach to be logical, and agrees with the Staff recommendation.

## Changes in the Adjusted Budget

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### *Use of New Government Finance Statistics Classification Data*

Staff propose to 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
  - use AGFS15 data provided by the States for 2017-18.

Tasmania appreciates the difficulties faced by the Commission due to the ABS move to a new Government Finance Statistics framework and the need to ensure consistency across the three assessment years of the 2019 Update period.

Tasmania therefore agrees with the Staff recommendation to use AGFS05 data from the ABS for the first two years of the Update period and AGFS15 data to be collected from the States for the final year of the Update period.

### *Cease Sending the Preliminary Adjusted Budget to the States for Comments*

Staff propose to recommend that the Commission:

- cease sending the preliminary adjusted budget to the States for comments from the 2019 Update onwards.

Tasmania agrees with the Commission Staff recommendation. Past experience has demonstrated that revisions to Tasmania's data have typically been small and usually the result of rounding differences. Given the relatively resource intensive nature of the work involved in checking the adjusted budget data for these resulting minor discrepancies, Tasmania agrees with the Staff recommendation to cease State requirement to comment on the adjusted budget data from the 2019 Update onwards.

Tasmania remains willing to provide answers to questions on specific datasets if required.

## **Treatment of New Commonwealth Payments Commenced 2017-18**

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Tasmania notes that, of the 16 Commonwealth payments commenced in 2017-18, six are likely to be quarantined by either the 2018 or 2019 Update Terms of Reference, two are classified as being payments for which expenditure needs are not assessed and the remaining eight will be assessed as having an impact on relativities.

Based on the Commission's 2015 Methodology Review guidelines, Tasmania agrees with the Staff proposed treatment of payments commenced in 2016-17 as listed in Table A-1 of Attachment A of the New Issues paper.

## **Treatment of New Commonwealth Payments Commenced 2018-19 or 2019-20**

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Tasmania endorses the Staff proposed treatment of payments commencing in 2018-19 and 2019-20 as listed in Table A-2 of Attachment A of the New Issues paper.

Tasmania also agrees with the Staff recommendation to not backcast them because they do not represent a major change in federal financial arrangements.