Victorian Response to New Issues for the 2019 Update

November 2018

Treasury and Finance

1. Introduction

The Commonwealth Grants Commission (the Commission) has circulated the ‘New Issues for the 2019 Update’ staff discussion paper (Discussion Paper) outlining several issues that the Commission considers relevant for the 2019 Update.

Victoria notes that these issues have been identified in the absence of the Terms of Reference (ToR) for the 2019 Update, and that once the ToR is issued, further consultation may be necessary.

Victoria thanks the Commission for the opportunity to provide comments on its proposed approach to the issues identified.

The issues identified in the Discussion Paper are the:

- treatment of lithium royalties and transfer pricing of minerals under the mining revenue assessment;
- transfer pricing of minerals;
- use of 2016 Census data;
- natural disaster relief expenses assessment;
- treatment of National Disability Insurance Scheme (NDIS) related payments;
- sale of Snowy Hydro Limited to the Commonwealth;
- changes in the Adjusted Budget; and
- treatment of Commonwealth payments.

The Victorian responses to these issues are presented in the following sections.

2. Mining Revenue Assessment

Treatment of Lithium Royalties

Victoria notes that the forecast increase of lithium royalties in 2018-19 is not large enough to warrant a separate assessment for this mineral in the 2019 Update. Given this, Victoria supports the Commission Staff’s recommendation that the Commission continue to assess lithium royalties in the Other Minerals component in the 2019 Update.

Given the likelihood that lithium royalties will be material once the 2018-19 increase enters the assessment period (for the 2020-21 relativity calculation), Victoria welcomes the consideration of assessing lithium as a separate component in the 2020 Review.

Transfer Pricing of Minerals

Victoria considers that the settlement of BHP Coal Pty Ltd v Treasurer and Minister for Trade and Investment (Queensland) raises two potential alternative assessments. One assessment for the interest component, and one for the royalty component.

Assessment of the interest component is straightforward. The interest can be assessed with other general government interest revenue on an equal per capita (EPC) basis.

The assessment of Mining revenue however, has implications for prior year GST distributions. This retrospective assessment would not only be relevant to Queensland whose GST allocation may have been lower due to a higher assessment of royalty revenue, but also to other states because of the potential increase in the average level of royalty revenue raised. However, given that that Commission Staff have already indicated that an assessment of this revenue would not be material, Victoria considers it appropriate not to retrospectively adjust relativities or previous GST allocations.

Victoria supports the Commission Staff's recommendation to assess the royalty revenue by Queensland (from BHP) in relation to a royalties reassessment, on an EPC basis.

3. Use of 2016 Census Data

Victoria notes the release of the 2016 Census data by the Australian Bureau of Statistics (ABS) and supports the Commission Staff's recommendation that population datasets should be updated to incorporate these data.

Using 2016 Census data may have a significant impact on assessments. Victoria requests that if the Commission has modelled the impact of using these data, that these insights be shared with states and territories.

4. Natural Disaster Relief Expenses

Victoria does not report Local Government out of pocket costs (or own-source revenue) in its provision of data to the Commission.

Victoria considers that if the Commission retains the 2015 Review method for calculating natural disaster relief expenses for the 2019 Update, states that include Local Government expenses in their reporting may receive more GST relative to states that do not.

Given that the Commission expects to have the relevant data for the 2019 Update, Victoria considers that these data should be examined to determine the materiality of adopting a revised method of assessment for this item.

Victoria does not support postponing the analysis until the 2020 Review, as retaining the 2015 Review method without investigation would result in an unequal treatment of states simply due to reporting conventions or the misinterpretation of data requests.

5. Treatment of National Disability Insurance Scheme (NDIS) Related Payments

Victoria notes the Commission's observation that by 2019-20, all states except Western Australia will be contributing to the NDIS on a full scheme basis. Victoria, Queensland, Tasmania and the Northern Territory may experience some slippages with some clients yet to transition by that date.

Victoria acknowledges that implementing an actual per capita (APC) assessment may not be possible for NDIS related payments as some jurisdictions may be contributing less than the full scheme scheduled amounts for 2019-20. This would make a policy neutral assessment of these expenses difficult and impractical.

Given this, Victoria supports the Commission Staff’s view to assess NDIS expenses EPC using 2011 Census population numbers and to retain the current non-NDIS expense assessment for the 2019 Update.

6. Sale of Snowy Hydro Limited to the Commonwealth

Victoria welcomes and supports the view of the Commission to consider the transaction as an exchange of one financial asset (equity in Snowy Hydro Ltd) for another (cash), with no change to the State’s net financial worth or fiscal capacity.

Victoria also acknowledges that removing the so-called ‘second round effects’ of the proceeds of sale may be impractical in the Commission’s assessment of states’ expenditure. In order to remove these ‘second round effects’ from future assessments Victoria would be required to associate revenue from the sale to corresponding expenditure items, possibly across a number of years and a number of assessment categories. The Commission would then be required to remove each of these expenditure items from the relevant assessment categories to determine the adjusted national average expenditure in each of these assessment categories. Only then could relativities be calculated.

Victoria notes that even estimating the magnitude of removing the ‘second round effects’ may prove difficult as it involves assuming the quantum, timing and category of Victoria’s expenditure and the expenditure of other jurisdictions within these categories – which may largely be driven by policy considerations. Furthermore, Victoria considers that unless all revenue from the sale was expensed in a particular assessment category within a particular year, the effect on relativities will be less than the effect of including (rather than quarantining) the proceeds from the sale as an increase to Victoria’s fiscal capacity.

Given this, and the Commission’s view to consider the proceeds from the sale as an exchange of one financial asset for another, Victoria supports Commission Staff’s recommendation not to adjust State expenditure to eliminate ‘second round effects’ from the Adjusted Budget.

7. Use of New Government Finance Statistics classification data

Victoria notes that the ABS recently replaced the previous framework for Government Finance Statistics (AGFS05) which was developed in 2005 with a new framework, the Australian System of Government Finance Statistics (AGFS15) which was developed in 2015.

Victoria notes that the ABS is only able to provide data based on AGFS15 for 2017-18 and cannot provide the Commission with backcasted data for 2015-16 and 2016-17.

Given this, Victoria supports the Commission Staff's recommendation to use AGFS05 data for 2015-16 and 2016-17, and AGFS15 data for 2017-18 to compile the Adjusted Budget.

8. States' Comments on the Preliminary Adjusted Budget

Victoria notes that the current process of providing the preliminary Adjusted Budget for states' comments provides an opportunity for review and data scrutiny. Although the revisions driven by state commentary are typically small, Victoria believes that this is a necessary step to ensure the accuracy and integrity of the Adjusted Budget.

Furthermore, there is currently no indication that providing the preliminary Adjusted Budget to states for comment is detrimental to the Update process. Given this, Victoria does not support the Commission Staff's recommendation to cease sending the preliminary Adjusted Budget to the states for comments from the 2019 Update onwards.

9. Treatment of New Commonwealth Payments Commenced in 2017-18

Victoria considers that the ToR should outline payments to be quarantined from the Commission's assessment process. Should the Western Australian Hospital Infrastructure Package payment, for example, be explicitly quarantined by the ToR for the 2019 Update, Victoria supports its exclusion from assessment. Using this approach, Victoria considers that quarantining the payments outlined in the Discussion Paper is appropriate, if the ToR specifies the quarantining of these payments.

In relation to the backcasting of data on payments that will commence in 2018-19 or 2019-20, Victoria considers the Commission's approach is sensible as these payments do not represent a major change in federal financial arrangements.

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