QUEENSLAND GOVERNMENT SUBMISSION RESPONSES

Submission R2020 Draft Assessment Papers for the 2020 Methodology Review – August 2018

Supplementary Submission R2020 Draft Assessment Papers for the 2020 Methodology Review & Urban Transport Consultancy – February 2019

Queensland Government

CGC 2020 Methodology Review Queensland Response

August 2018

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1.0 Executive Summary

Queensland welcomes the opportunity to respond to the Commonwealth Grants Commission (CGC) staff's draft assessment papers for the 2020 Methodology Review (the 2020 Review) into how GST revenue is distributed among Australia's states and territories (hereafter referred to as 'states'). This document provides Queensland's positions on technical issues raised by the CGC. It was prepared in advance of the CGC's State Visit to Queensland in late August and a supplementary document will be submitted following the visit.

Overall, Queensland maintains its support of the system of Horizontal Fiscal Equalisation (HFE)—All Australians, no matter where they live, should be able to access services that they need and are of a high standard, and all states should be provided with the GST revenue (and the opportunity) to make this happen. This will require the method of distributing GST revenue to recognise regional differences and account for associated service delivery challenges.

This current view of HFE is important to the people of Queensland. Queensland is unique among Australian states and territories. It is a vast and a very decentralised state. It is the only state where more than 50 per cent of the population lives outside the capital city. It supports a large population of Indigenous peoples, fast-growing regions and numerous, small, dispersed communities.

Given the broad service delivery responsibilities of the states, limited access to revenue sources, and the pressures that some of those service delivery areas will face into the future, HFE is essential and must be preserved.

The 2020 Methodology Review

The purpose of the review must be to ensure the principles of HFE are upheld in the CGC's assessments: 'what states do', policy neutrality, practicality, and contemporaneity. The CGC's process has significant nation-wide impact and influence. This makes it vital that the process is stable, credible, robust, and underpinned with confidence from all stakeholders.

Effective and in-depth consultation with states is imperative to ensure GST shares accurately reflect 'what states do' and consider how each state's unique characteristics affect how they provide services. While Queensland acknowledges that the CGC must continue to develop its method, it is important that states are consulted as it evolves and well before changes are implemented. Asking states for comments once the new assessment methods are presented to the CGC significantly limits states' ability to consider and provide constructive feedback on proposed assessment approaches.

Assessments should only be changed where the CGC identifies better ways to capture 'what states do' and achieve HFE, and not where this benefit is not clear. Queensland is concerned that some of the proposed changes appear to be simply driven by new data being available, or alternate modelling techniques. Also, some proposed models suggest strong correlation between certain drivers and state expenses but do not prove causation. The CGC must carefully consider whether such changes could lead to distortions in the distribution of GST revenue and run counter to the principle of HFE. Queensland requires additional information to provide a firm position on these proposals and recommends further consultation with states to mitigate this risk.

The potential impact of the Productivity Commission's (PC's) Review into HFE and the Australian Government's Interim Response cannot be ignored. Acceptance of these recommendations will significantly change how GST revenue is distributed. At the time of preparing this document, the Australian Government has not reissued its terms of reference for the 2020 Review. Regardless, it is important that the CGC considers the implications of the PC's recommendations and supports discussion between the Australian Government and states. Only with consideration of the CGC's expert advice can jurisdictions make fully informed decisions on how to achieve the goal of the PC's recommendations—stable and fair distribution of GST revenue. Some recommendations address matters raised before in reviews by the CGC—for example, the need for simplicity. As before, Queensland continues its support for simplifying assessment processes while still addressing the service delivery challenges of states and upholding the principles of HFE.

Key issues for the 2020 Review

This document responds to technical issues raised by the CGC. Queensland considers the following assessment issues to be of major importance to reflect all states' needs and what they do:

- **Transport.** The approach to assess the recurrent expenditure for urban transport does not accurately reflect 'what states do'. States do not plan or manage their urban transport requirements with rigid adherence to statistical boundaries. If the CGC retains the current approach, satellite cities should be included with their base city. In Queensland, the South-East region has experienced continued growth faster than the national average and, for planning and policy purposes, the enclosed cities are considered a single region. To respond to the need for transport in and out of Brisbane, the economic hub for the region, the Queensland Government has heavily invested in public transport and related infrastructure between Brisbane and its satellites (particularly the Gold Coast and Sunshine Coast).
- **Regional cost.** The challenge and cost of providing services across the State of Queensland cannot be understated. It is of utmost importance to continue to adjust assessments to provide additional GST revenue to support services in regional and remote communities.
- **School Education**. The alternate models presented by CGC staff will lead to assessments of state needs that contradict actual needs. This will take money away from where it is most needed. For example, output from the proposed model suggests that the cost for educating students in urban, more advantaged regions is greater than supporting disadvantaged students in remote communities. This is counterintuitive and does not reflect how states allocate costs. Queensland is no exception.
- **Justice.** The CGC staff's proposed model is solely based on cost per offence for a population cohort. This does not reflect what communities need or how states provide police services. It ignores the primary focus, and considerable work, of the Queensland Police Service to prevent crime and support communities. Also, for our officers stationed in regional and remote Queensland, they are often the sole Queensland Government representative resulting in them delivering a range of non-traditional police services.
- **Mining Revenue**. The assessment continues to struggle with policy neutrality as changes to individual minerals can have a disproportional effect on the assessment. An aggregated mining assessment would provide a better HFE outcome in the long run and achieve balance between 'what states do' and policy neutrality. Further, there is no clear reason for the proposed treatment that allows a 'dominant state' to retain 50 per cent of the revenue increase from a policy change.

Queensland's positions for technical issues proposed by the CGC is summarised in Attachment 1 to this document.

Queensland appreciates the opportunity to comment on the 2020 Review and looks forward to further consultation with the CGC prior to the release of the CGC's draft 2020 Review Report.

2.0 Priority Issues

2.1 Transport

Queensland's position

- The current approach to assessing recurrent expenditure for urban transport needs to be refined to better reflect how states plan or manage their urban transport requirements. The information presented by the Commonwealth Grants Commission's (CGC's) staff does not provide a strong conceptual case that per capita urban transport subsidies increases as population increases within the urban area.
- The CGC should conduct further investigations to ensure all drivers behind transport expenses are considered properly before proposing an approach for the 2020 Review.
- The Significant Urban Areas (SUA) dataset does not capture the transport task states have and does not reflect 'what states do'. SUAs used to define urban centres result in inconsistent treatment of similar Urban Centre Localities (UCL).
- If the CGC retains the current approach, satellite cities should be included with their base city. This would better reflect 'what states do' and the transport task that states service. In Queensland, the South-East region has experienced continued growth faster than the national average and, for planning and policy purposes, the enclosed cities are considered a single region.
- A discount to the urban transport assessment is needed. The robustness of this assessment is impaired by inconsistent supporting evidence of the conceptual case, policy contamination of the regression model, and inconsistent treatment of similar UCLs.

Overview

The Transport category comprises expenses relating to bus, rail, ferry services, ports and other maritime related services, and air transport. Expenses include the cost of passenger concessions and state administration expenses, while investment expenditure is assessed in the Investment category.

CGC staff propose retaining the current assessment methodology for transport net expenditure in the 2020 Review. A consultant has been engaged to research the issue of satellite cities for the 2020 Review based on the CGC's criterion of 120 minutes commute times from a satellite city's central business district (CBD) to its base city CBD and a 5 per cent commuter share arriving in the base city.

The current assessment of recurrent urban transport expenditure does not reflect 'what states do'

Queensland opposes the current regression model approach to assessing recurrent expenditure for urban transport. The CGC model does not reflect how states plan or manage their urban transport requirements. The conceptual case that per capita transport subsidies increase as population increases is not supported by information presented by the CGC staff. Based on this information:

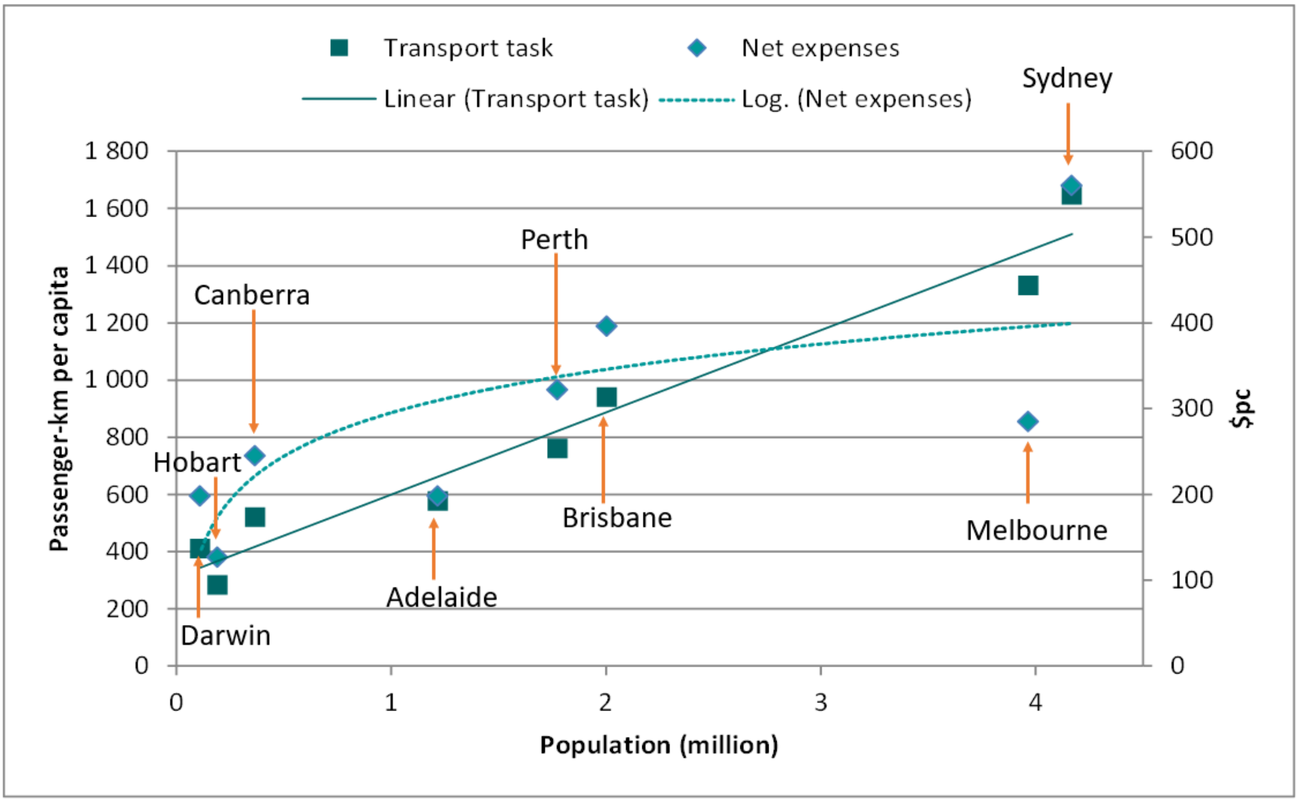
- government subsidies in Sydney and Melbourne are inconsistent and show how state policy and state service operating efficiencies influence per capita subsidies
- international case studies do not show a strong relationship between a city's population size and its per capita transport subsidies.

Moreover, the assessment methodology is influenced by policy choice, has a limited number of data observations, uses a dataset that is not fit for purpose, and fails to recognise other cost drivers states face.

Inconsistencies among the largest capital cities

Government subsidies in Sydney and Melbourne are inconsistent and show how policy and operational efficiencies influences per capita transport subsidies. Figure 1 details the current regression model used by the CGC for urban transport. While there is a positive relationship between passenger kilometres per capita and population, there are significant variances in net expenditure per capita. This is most evident in the two largest cities (Sydney and Melbourne) which have similar populations. The CGC should investigate why these discrepancies exist and adjust the modelling approach to reflect any factors influencing these discrepancies.

Figure 1 2015 urban transport model



Sourced: CGC 2015 Methodology Review, Volume 2 Assessments

International case studies do not provide conclusive evidence to support the CGC case

The international data presented by the CGC in its draft assessment paper does not support the conceptual case that larger populations lead to larger per capita transport subsidies. The international research provided shows the following:

- government subsidies by city size in Spain show inconsistent results. Barcelona with a population of 4.9 million has per capita subsidies of 30.9€ while Madrid with a population of 6.3 million has per capita subsidies of 26.7€.
- government subsidies by city size in France shows inconsistent results. Cities with populations between 200,000 and 400,000 have a per capita subsidy of 306.7€ while cities with populations over 400,000 have 248.5€ per capita subsides.
- the United States of America show increasing per capita subsidies with increasing population. However, the CGC staff noted they were not able to ascertain the consistency of reporting in each city.

The international research does not support that population leads to higher per capita transport subsides. Therefore, assessment approach needs further consideration and refinement to better reflect 'what states do'.

Provide the report on stage 2 of the consultancy to states for comments

Queensland acknowledges that the CGC has engaged a consultant to establish a model that incorporates other critical factors that create service delivery challenges states face and uses fit for purpose data.

This work should investigate:

- policy influences on per capita expenditure across jurisdictions
- service delivery requirements created by population cohorts such as education and shopping
- technical inefficiencies that may exist across jurisdictions
- topography constraints that drive the cost of delivering services
- impact of urban sprawl and population density on service delivery requirements.

States should be consulted on the outcome of this work before the 2020 Review is finalised. No proposal to retain the current methodology should be made until this work is completed, and then, only if it can be conclusively shown that no better assessment approach can practically be applied.

Queensland supports the CGC staff proposal to provide the consultant's report to the states. However, states need to be consulted regarding the development of any new assessment proposals as they occur. Asking states to provide comments once the new assessment methods are presented to the CGC provides significant limitations on states' ability to adequately consider and provide constructive feedback on any proposed assessment approaches.

Satellite cities should be amalgamated with their base city

While the current approach does not adequately reflect 'what states do', if it is to be retained, satellite cities should be amalgamated with their base city. This is necessary to accurately reflect the states' true transport task and mitigate issues of the SUA dataset used to frame urban centres. In Queensland, the South-East region has experienced continued growth faster than the national average and, for planning and policy purposes, the enclosed cities (particularly the Gold Coast and Sunshine Coast) are considered a single region. Queensland acknowledges the CGC engaged a consultant to investigate this matter. This work needs to be finalised before adopting a final approach for the 2020 Review.

Place of work

Place of work by usual residence in Queensland illustrates the significant transport task that Queensland has for people living on either the Gold Coast or Sunshine Coast commuting to Brisbane for work. Table 1 shows that 10.6 per cent of employed people living on the Gold Coast and 6.1 per cent living on the Sunshine Coast travel to Brisbane for work.

Table 1 Place of Work, 2016 Census

Usual residence – Place of work	Commuter Numbers	%	Travel (origin to destination)	Commuter Numbers	%
Gold Coast - Brisbane	30,353	10.57	**Sunshine Coast - Brisbane**	8,168	6.05
Gold Coast - Gold Coast	228,088	79.45	**Sunshine Coast - Sunshine Coast**	109,304	80.98
Gold Coast - Other QLD	28,637	9.98	**Sunshine Coast - Other QLD**	17,501	12.97
Total Gold Coast	278,078	100	**Total Sunshine Coast**	134,973	100
Gold Coast - Brisbane as a share of Intra-City Gold Coast Commuters		13.31	**Sunshine Coast - Brisbane as a share of Intra-City Sunshine Coast Commuters**		7.47

Source: Australian Bureau of Statistics, Census of Population and Housing, 2016, unpublished data

Commuters to other destinations

Journey to work commuters account for a large share of the transport task. However, there are other cohorts of commuters such as people commuting for shopping and education that place significant strain on state urban transport services the states face.

Public transport commuters

Large cities have a significant public transport demand arising from inter-city commuters. As an example, Table 2[1] details boardings from the Gold Coast and the Sunshine Coast travelling to Brisbane City. Public transport commuters arriving in Brisbane from the Gold Coast and the Sunshine Coast account for 12.6 per cent and 11.3 per cent of all trips originating in these locations respectively. This is considerably higher than the CGC's proposed

[1] Table 2 boarding numbers do not include counts (multiple transfers before destination) and paper tickets that have no destination data recorded.

inter-city commute volumes for a satellite city and illustrates the significant connection between the Brisbane and its satellite cities workforces as well as the level of public transport integration across South East Queensland.

Table 2 Public transport boardings, excluding multiple transfers and no destination data, 12 months to 18 June 2018

Journey commenced	Numbers of boardings	Number of boarding ending in Brisbane Greater Region	Share ending in Brisbane
Gold Coast	12,889,708	1,622,674	12.59%
Sunshine Coast	2,701,706	305,879	11.32%

Source: Queensland Department of Transport and Main Roads, unpublished data

Travel time to base city centre should include private transport

Queensland acknowledges the conceptual case that public transport commuter travel times present a level of service integration across base and satellite cities. However, the current proposed criterion of 120-minute commute times from city centre to city centre does not reflect how people travel between satellite cities and their base city. The CGC should refine the criterion to allow private transport to a public station, as this better reflects how commuters travel between satellite and base cities.

The place of origin for a commuter is generally not the city centre as this location is developed as a CBD and most residences are outside this region. Therefore, travel should start at a train or bus station and not the city centre.

Moreover, the assumption that all transport modes must be via public transport is not conceptually strong. For example, to arrive at Sydney Central Station from Wiseman's Ferry, a commuter would board a bus and then transfer at Richmond train station. This journey would take approximately 2 hour 54 minutes even though Wiseman's Ferry is within Sydney's SUA. A commuter from Wiseman's Ferry would likely drive (private transport) to Richmond train station and board a train. This would take the commuter approximately 2 hours and 16 minutes to arrive at Sydney Central station.

Tables 3 and 4 details commuter options for residents residing on Gold Coast and Sunshine Coast SUAs that commute to Brisbane's Central Station. Commuter options allow for private transport to a public transport station. This definition better represents the demand characteristics of commuter's traveling between satellite cities and their base city. All public transport options in Tables 3 and 4 arrive before 8:00am at Brisbane's Central Station.

Table 3 Travel times from Gold Coast to Brisbane Central Station

Journey commenced	Travel Time, Gold Coast to Central Station – Brisbane City	Travel time from Gold Coast CBD to Station	Total travel time
Varsity Lakes Station	1hr 19min	22min	1hr 41min
Broadbeach Station	1hr 51min	14min	2hr 5min
Robina Station	1hr 16min	16min	1hr 32min
Nerang Station	1hr 10min	19min	1hr 29min
Helensvale Station	1hr 5min	24min	1hr 29min

Source: Translink Journey Planner (July, 2018)

Note: To travel from the Gold Coast city centre to Broadbeach south station a commuter would travel south before heading north. It is considered unlikely that a commuter would take this route. A commuter would only travel from Broadbeach south station if they lived on the southside of the city centre and therefore the travel time would be 1hr 51min.

Table 4 Travel times from Sunshine Coast to Brisbane Central Station

Journey commenced	Travel Time, Sunshine Coast to Central Station – Brisbane City	Travel time from Sunshine Coast CBD to Station	Total Travel Time
Nambour Station	1hr 48min	17min	2hr 5min
Woombye Station	1hr 43min	13min	1hr 56min
Palmwoods Station	1hr 39min	14min	1hr 53min
Eudlo Station	1hr 33min	20min	1hr 53min
Landsborough Station	1hr 20min	26min	1hr 46min

Source: Translink Journey Planner (July, 2018)

Note: To arrive at Nambour station from the Sunshine Coast using the fastest route, a commuter would travel directly past Woombye train station and therefore. It is considered unlikely that a commuter would take this route.

The 2015 Review definition of urban areas is not appropriate for assessment purposes

Queensland opposes the current definition of urban areas in the urban transport assessment. The current SUA boundary used to define urban areas causes inconsistent treatment of similar UCLs. Table 5 details 4 UCLs that are within Sydney's SUA and 4 UCLs that are outside Brisbane SUA.

Table 5 Case study SA2s by key statistics, 2016

	Distance to CBD (a)	Commuters to CBD	Usual resident population	Per cent of commuters
SA2 Within Sydney urban centre	km	persons		
Ashcroft – Busby – Miller	28.9	246	13,143	1.87%
Cabmen – Ellis Lane	51.5	337	10,372	3.25%
Wentworth Falls	87.8	137	5,074	2.70%
Penrith	49.6	493	11,110	4.44%
SA2 Outside Brisbane urban centre				
Ormeau – Yatala	37.6	514	14,466	3.55%
Helensvale	56.8	261	13,727	1.90%
Coomera	48.6	300	9,454	3.17%
Upper Coomera – Will Vale	48.2	508	22,687	2.24%

(a) The CBD has been defined as the “inner city SA3” for each state.

Source: Australian Bureau of Statistics, Census of Population and Housing, 2016, unpublished data

The SA2s that are within Sydney’s SUA account for 1,213 commuters and 60,946 passenger-km while the four SA2s that lie outside Brisbane’s SUA account for 1,583 commuters and 73,217 passenger-km. This reflects the underlying issue with the SUA dataset used for the urban transport model as it includes some UCLs while excluding other UCLs that create a greater transport task for the urban centre. Therefore, the statistical dataset of SUAs is not fit for purpose and should not be used as it does not capture the service delivery requirements that states face. Instead data should be developed that includes satellite cities within each base city.

Table 5 also illustrates the impact UCLs outside a city’s SUA can have on a city’s urban transport task. Including satellite cities would mitigate this effect. However, if the CGC continues to use the current regression model to assess urban transport expenditure, research should be conducted to determine what data would be the best fit for purpose.

Include all SUAs in the assessment of urban transport because most of them have public transport services

As outlined in the section above, Queensland opposes SUAs being used as the measure of urban centres. If the CGC continues to use the current model, the impact of including all SUAs are not expected to be material on horizontal fiscal equalisation (HFE) outcomes.

Retain the 2015 Review assessment of non-urban transport services, which is based on state shares of population outside capital cities

As is the case with urban transport, population alone is not the sole factor impacting expenditure. The CGC should conduct further research into other factors influencing transport expenses in non-urban transport as these factors would likely be also prevalent in urban transport.

A discount should be applied to the urban transport assessment

A discount to the urban transport assessment is required because:

- the 2015 consultant report found additional cost drivers to urban transport other than population. Therefore, a differential assessment that only accounts for one driver will favour certain jurisdictions and should be discounted until a more robust model is developed.

- international research presents an inconsistent relationship between per capita subsidies and population within the same country. The international research presented by the CGC does not support the conceptual case that larger populations lead to larger per capita transport subsidies.

- the SUA dataset used by the CGC is not fit for purpose as this leads to inconsistent treatment of similar UCLs across SUAs.

- the CGC's assessment is highly influenced by policy choice and technical efficiencies in Australia's two largest cities. Given the significant differences in Melbourne and Sydney subsidies per capita and a limited number of observations for cities with greater than 2 million people, Melbourne and Sydney have a significant impact on the per capita cost curve generated by the CGC's regression model.

This is consistent with the CGC's use of discounts for assessments that have issues with a conceptual case, data inconsistencies, policy contamination, and model limitations.

2.2 Regional cost

Queensland's position

- Expanding the regional cost assessment to include service specific regional cost gradients for post-secondary education and hospitals is conceptually sound.
- A single undiscounted regional cost measure for all categories is appropriate to use if there are no significant differences in the cost gradients between services. Queensland acknowledges there are complexities associated with determining regional costs, and it is not clear to what extent regional costs may vary between services. However, it is clear that regional costs for service delivery and capital investment exist, have a clearly established conceptual case, and are considerable.
- Further, a discounted gradient would underestimate well-founded regional costs for these categories.
- A regional cost disability should continue to be applied to services.

Overview

The Commonwealth Grants Commission (CGC) uses different geographic classifications and approaches to measure different attributes affecting service delivery costs (Geography used by the CGC). In considering geographic classifications, the CGC considers disabilities relating to regional costs, service delivery scale, socio-economic status (SES) and Indigeneity. These factors span across the expense assessments to varying degrees based on the conceptual cases that costs are not heterogenous across regions and populations.

Currently, the regional cost gradients are estimated for police and school services, which are incorporated into their respective assessed expense categories. All remaining expense assessments use a general regional cost gradient, which is a discounted average of the police and school gradients.

CGC staff have proposed to estimate and incorporate post-secondary education and hospitals regional cost gradients into their respective expense assessments. The CGC staff recommend combining the four gradients for use across all assessments.

The assessment also considers socio-economic status, using Socio-Economic Indexes for Areas (SEIFA), non-Indigenous SEIFA (NISEIFA), and Indigenous Relative Socio-Economic Outcomes (IRSEO) data. Different weightings are applied for Indigenous and non-Indigenous disadvantage. The draft assessment paper proposes to consider the benefits of new data, IRSEO+, for use in assessments, but does not recommend any other methodology changes.

Expanding the regional cost assessment to include category specific regional cost gradients for post-secondary education and hospitals is appropriate

Queensland supports the CGC staff proposal to incorporate service specific gradients for post-secondary education and hospitals.

Queensland notes that service delivery in remote areas require a greater level of funding as outlined by the conceptual case put forward by the CGC. Queensland also agrees that regional costs are complex and that regional challenges may vary between services. As such, Queensland supports an approach which gradually seeks to expand upon the regional cost assessment on a service by service basis.

Queensland acknowledges that most states subsidies vocational education and training (VET) provided in regional areas. CGC staff calculations of regional cost loadings support this conceptual case that VET costs increase as remoteness increases. Queensland supports the introduction of a post-secondary education regional cost gradient.

The regional cost loadings for hospitals are still to be determined by the CGC. Queensland notes that the regional cost loadings provided by the Independent Hospital Pricing Authority (IHPA) (shown in the draft assessment paper) show very little difference between the “major cities”, “inner regional”, and “outer regional” areas. Even an additive combination of these loadings would still result in a significantly lower cost loading for “inner regional” and “outer regional” areas than what is observed for other services. In addition to being significantly different to the other regional cost gradients, it is unclear whether the currently proposed IHPA regional cost gradients appropriately capture the increase in costs of patients in regional and remote areas. Because of this, further work is required by the CGC in determining an appropriate regional cost gradient for hospitals.

Using a single undiscounted measure for all service categories is appropriate if there are no significant differences in cost gradients

Queensland supports the CGC staff proposal to incorporate service specific gradients for post-secondary education and hospitals. However, the 25 per cent discount should be removed. The current gradients for schools and police are based on extensive and reliable data. A discounted gradient would undermine well-founded regional costs for these categories.

The three regional cost loadings for hospitals provided in the draft assessment paper show low costs for inner regional and outer regional areas. If the CGC develop a regional cost loading gradient that reflects this, this gradient would be incompatible with the remaining three gradients (that is, education, police and post-secondary) for use as a single measure. Further, Queensland would not support the inclusion of a vastly different regional cost gradient for hospitals into a discounted average general gradient.

Queensland notes the size and reliability of data may also be considerably different in the assessment of regional costs for each service. To that extent, Queensland proposes that there may be merits to considering a lower weighting for gradients that are unique in nature or are considered less reliable by the CGC. For instance, the regional cost gradient for school education is derived from data that are relatively reliable, consistent and extensive, and uses what is arguably one of the most robust approaches to determining expenses used by the CGC.

Continue applying a regional cost disability to services where a conceptual case has been identified

Queensland supports the continued application of a regional cost disability to services where a conceptual case has been identified. As stated above, Queensland also supports an approach to expand regional cost gradients for services. As additional service specific regional cost gradients are estimated by the CGC, the medium level discount should be replaced with a low-level discount or removed entirely.

Consider the merits of IRSEO+ as a better measure of Indigenous SES once this becomes available

The dynamic geographical base that IRSEO+ is developing may prove a better measure of Indigenous disadvantage within urban areas where Indigenous population are high. However, in regional and remote areas there will still be pockets of disadvantage that IRSEO+ may not capture due to Indigenous population density.

The Centre for Aboriginal Economic Policy Research intended to complete the development of IRSEO+ by July 2018, with consultation with stakeholders well before that. At the time of writing, this process has not yet been determined. It is understood that when it has been determined, CGC staff will ensure that states are invited to participate in the consultative process on the development of IRSEO+.

Continue to use SEIFA and NISEIFA for the total and non-Indigenous population respectively, and maintain methods for service delivery scale and interstate non-wage costs

Queensland supports the continued use of SEIFA/NISEIFA data in assessed SES or the continued use of current methods for assessing service delivery scale or interstate non-wage costs.

2.3 School Education

Queensland's position

- The approach to calculating student cost weights applied in the 2015 Review should be retained. The alternate models presented by Commonwealth Grants Commission (CGC) staff are not appropriate because they do not reflect 'what states do'.
- Given Queensland's reservations about the alternate models, further information on how netting user charges impacts cost loadings is needed before a firm position can be reached on this proposal.
- The impact of students with a disability on costs should be incorporated into the school education assessment as this is a distinct driver of education costs.
- The cost of transporting school children should remain within the School Education category. The disabilities influencing school transport expenses are different to those influencing urban transport expenses.
- Changes to assessments should only be made where it can be conclusively shown that it will improve the robustness of the assessment of state needs. Otherwise, such changes could lead to distortions in the distribution of GST revenue which goes against the fundamental objective of horizontal fiscal equalisation (HFE).

Overview

The School Education category covers expenses relating to state funding for government and non-government schools, and Australian Government funding for schools and student transport.

The state funded schools' component is the largest component in the category. This is largely driven by the outputs of a regression model which determines a national weighting of student costs by student Indigeneity, remoteness, and socio-economic status.

Major changes proposed to the School Education category include:

- applying a new model to assess education needs
- moving student transport expenses to the Transport category.

Queensland does not consider that either of these changes are appropriate because:

- the model proposed by CGC staff does not reflect 'what states do'
- the disabilities influencing school transport expenses are different to those driving urban transport expenses.

CGC staff's alternate student cost models do not reflect 'what states do'

The current regression model calculates student cost weights. Under this model, higher levels of remoteness and lower socio-economic statuses (SES) lead to higher student costs. This aligns with the Australian Government's basis for the Schooling Resource Standard (SRS), which also prescribes extra loadings for disability and low English language proficiency.

On 7 December 2017, CGC staff prepared an alternate model (Model A). This model uses Australian Curriculum, Assessment and Reporting Authority data, the same data as the 2015 Review. However, the alternate model does not separate schools into individual data points for Indigenous and non-Indigenous students. The output from Model A is reproduced in Table 6, which shows the approximate costs (coefficients) for different types of students.

Table 6 Alternate regression model (Model A)

Factor	Coefficient ($)
Base student (Non-Indigenous - least disadvantaged quintile)	8 287
Inverse school size	195 104
Indigenous - least disadvantaged quintile	14 736
Indigenous - second least disadvantaged quintile	12 363
Indigenous - middle disadvantaged quintile	9 891
Indigenous - second most disadvantaged quintile	9 521
Indigenous - most disadvantaged quintile	7 728
Non-Indigenous - second least disadvantaged quintile	-235
Non-Indigenous - middle disadvantaged quintile	-266
Non-Indigenous - second most disadvantaged quintile	228
Non-Indigenous - most disadvantaged quintile	829
Inner regional	16
Outer regional	901
Remote	4 015
Very remote	3 303

Source: Reproduced from model provided by the CGC to states

The CGC staff draft assessment paper stated that:

> *there is a strong conceptual case that students from low [SES] backgrounds attract more state funding than students from high SES backgrounds.*

However, the output from Model A contradicts this statement in two key areas:

- The cost of education for an Indigenous student within the most disadvantaged quintile is $7,728 higher than that of a base student, while the cost of education for an Indigenous student within the least disadvantaged quintile is $14,736 higher than that of a base student. This indicates that an Indigenous student in the least disadvantaged quintile costs $7,000 more than that of an Indigenous student in the most disadvantaged quintile.

- The cost of education for non-Indigenous students in the second least and middle disadvantaged quintiles are lower than the cost of education for a non-Indigenous least disadvantaged student.

In addition, the cost of education for students in "very remote" areas are lower than students in "remote" areas. This is inconsistent with Queensland's' understanding that the cost of providing education services increase as distance from urban centres increases.

These calculated impacts from Model A do not reflect 'what states do' or, more specifically, how expenses are incurred when delivering school education to a diverse student cohort, and should not be used to determine student cost weights.

On 6 July 2018, CGC staff presented another model to estimate school education expenses (Model B). Model B uses similar underlying data to Model A, but uses Index of Community Socio-Educational Advantage (ICSEA) data to determine disadvantage. Model B also does not separate schools into individual data points for Indigenous and non-Indigenous students.

Table 7 Alternate regression model, using ICSEA data (Model B)

Factor	Coefficient
Fixed cost per school	195 286
Base cost per student (a)	7 730
Marginal additional cost of	
Indigenous student	6 587
Inner Regional student	-46
Outer Regional student	927
Remote student	4 139
Very Remote student	3 228
Student in most disadvantaged 25%	3 236

Source: Reproduced from model provided by the CGC to states

Based on the output provided, it is understood that in Model B:

- Indigeneity and remoteness are considered.
- A factor for students in the "most disadvantaged 25 per cent" is used as an alternative approach to disaggregating students into disadvantaged quintiles.

Disadvantaged quintiles should be retained in any model assessing student costs because:

- the costs of providing school education vary depending on the level of disadvantage experienced by the student (as noted conceptually by CGC staff in this draft assessment paper)
- the impacts of disadvantage for Indigenous students is different to that of non-Indigenous students
- this is consistent with the CGC's treatment of disadvantage in other assessments.

Like Model A, Model B does not accurately reflect the impact of remoteness. Model B's output incorrectly indicates that:

- "very remote" students incur lower expenses than Remote students
- "inner regional" students incur lower expenses than students in Major Cities (Base case)

This does not reflect 'what states do' in terms of expenses incurred to provide school education.

More importantly, there is a general trend that a larger distance between the school and an urban centre leads to higher expenses in providing school education services. Figure 2 shows the impact each level of remoteness has on school education expenses in each state. Figure 2 indicates that:

- apart from the Northern Territory, "very remote" has the largest impact on expenses (note there is no impact for "very remote" in Victoria or the ACT as there are no "very remote" students in these states).
- there is a higher cost for students in "inner regional" areas (compared with students in major cities) in New South Wales, Victoria, Queensland, and Western Australia. The total of these four states comprise approximately 88 per cent of inner regional students, using 2015-16 data provided by the CGC.

Figure 2 Factor weightings for school education costs by state

Source: CGC calculations

It is unclear why the "inner regional" factor is negative for South Australia and Tasmania, or why the "very remote" factor is negative for Northern Territory. Further investigations are needed to understand these results for South Australia, Tasmania, and the Northern Territory.

Based on the information provided, these results appear to be skewing the estimated factors at the national level, and thus lead to results that do not reflect 'what states do' and do not adequately capture the 'average' policy with regards to education expenses. Therefore, Model B should not be used.

Queensland is concerned that remoteness is also captured as part of ICSEA (using ARIA data). This means there is potential for double-counting, reducing the robustness of any assessment. If CGC staff are unable to remove the influence of accessibility and remoteness from ICSEA data, the data should not be used as it leads to unreliable results.

Model applied in the 2015 Review should be retained

Given the above issues, Queensland is concerned the adoption of either Model A or Model B will lead to assessments of state needs that contradict states' actual needs. This would lead to GST revenue being distributed away from where it is most needed and detract from HFE.

Queensland opposes any changes made to the modelling approach to school education needs unless these changes can conclusively be shown to improve the assessment of state needs. While Queensland supports investigations and analysis to improve the assessment, any alternate approach should produce logical results. Caution must also be exercised when changing an approach that the change results in a clear improvement in calculations. Minor 'tweaks' to models risk large amounts of GST revenue being distributed from one state to another without any strong underlying reason for this movement.

Models A and B are inferior to the current model as neither adequately reflects 'what states do'. Therefore, the model adopted in the 2015 Review should be retained.

No firm position on netting user charges can be provided without further information

Queensland notes the CGC staff proposal to net user charges from the state funded government school assessment and incorporate this into its model to calculate student costs.

Queensland recognises that a state's ability to raise user charges can improve its ability to deliver education services, and that this may be appropriately considered in the Education assessment. However, as discussed above, Queensland opposes the two models proposed by CGC staff for the 2020 Review (i.e. Models A and B discussed above).

Queensland requires further information on how netting user charges would influence other cost loadings in the assessment and consider whether this will result in a robust model that accurately reflects 'what states do'.

The cost impact of students with a disability should be incorporated into the assessment

Queensland opposes the CGC staff proposal to delay the inclusion of data on students with disability into the education assessment. Assisting students with a disability is a key component of Queensland's education funding model and aligns with the Australian Government's SRS. Consultation with the Queensland Department of Education has indicated that data has progressed to a stage where interjurisdictional comparisons may be possible.

Transport of school children expenses should remain within the School Education category

Queensland opposes the CGC staff proposal to include school children transport expenses with transport expenses and assess this using the same disabilities as those for the urban transport assessment.

Queensland agrees there are issues with the current assessment, namely the complex proxy in estimating rural student transport costs. Queensland also agrees that there is naturally some overlap between the transport of students and the transport of other people.

CGC staff suggested that student travel expenses could be included within one of the following:

- transport expenses and assessed using the urban transport assessment
- school expenses and assessed using the state funded school education disabilities
- other expenses and not differentially assessed.

Group with transport expenses and assess using the urban transport assessment

Queensland sees no conceptual case that student transport and urban transport experience the same disabilities. A reallocation of student transport expenses to urban transport expenses will not account for differences in student enrolments and demographics between states, such as unique needs relating to the transport of students with a disability. Further, existing urban transport networks are likely to have greater coverage to support student transport needs. Whereas student transport expenses in regional and remote areas have less overlap, are unique in nature, and comprise a significant proportion of Queensland's student transport expenses.

Group with school expenses and assess using the state funded school education disabilities

The state funded school component captures enrolment populations and their respective regional demographics, meaning that both urban and rural expenses will be considered in this approach.

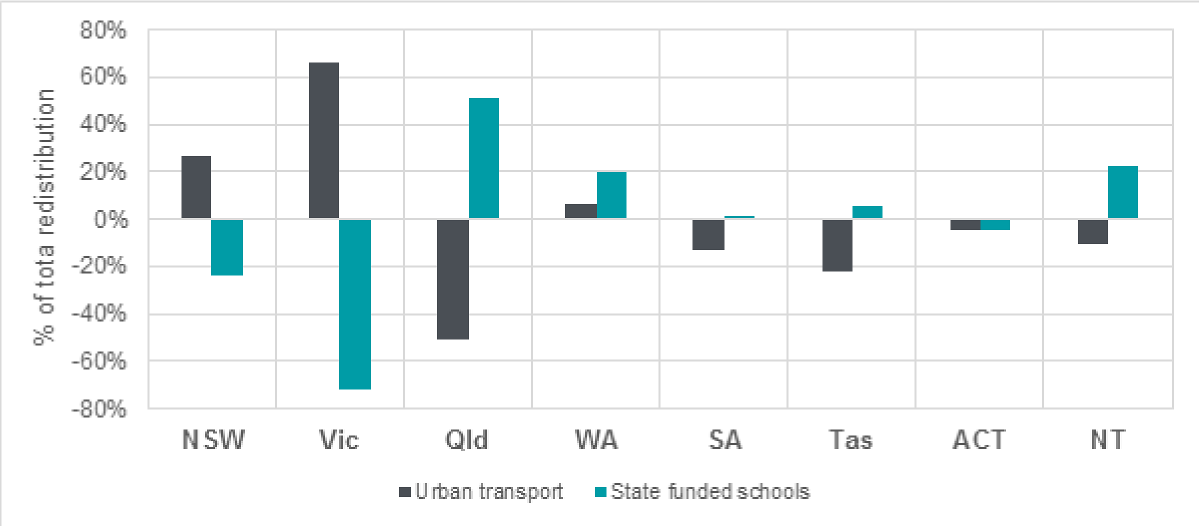
Queensland does not consider there to be a clear link between student transport expenses and other state funded school expenses because some factors, such as SES and Indigeneity, are less impactful on student transport expenses than factors such as remoteness and service delivery scale.

Include in other expenses and do not differentially assess

An equal per capita (EPC) approach is not ideal for achieving HFE. EPC should only be used where an assessment is immaterial, unreliable and alternative options fail to satisfy a conceptual case. In this situation, assessing EPC will mean the differences in disabilities in terms of providing transport to school students will be ignored, as such it is not supported.

Queensland notes that the two other options provided by the CGC covered above are vastly different in outcomes. For instance, Figure 3 shows the approximate redistributive effects in the 2018 Update because of the urban transport and state funded schools components, and highlights that the two suggestions produce almost entirely opposite outcomes. For example, Queensland accounts for 51 per cent of redistribution away from states in the urban transport assessment, and 51 per cent of redistribution to states for the state funded school's component.

Figure 3 Redistributive effects of urban transport and state funded schools components, 2018 Update



Source: Queensland analysis using CGC provided data

Queensland is concerned with the CGC making radical changes to the methodology of any category without comprehensive evidence to support the change. In this case, no option considered provides unambiguous improvements over the current approach in place. Changing from one method to another from Review to Review risks significant re-distribution of GST revenue from one state to another without any clear justification for this movement of funds. Such moves are contrary to the principle of HFE as it results in changes in GST revenue shares merely because of ‘tweaks’ to a model rather than a clear difference in relative needs.

Queensland therefore opposes any of the three options considered and instead supports the status quo being retained.

2.4 Justice

Queensland's position

- Measuring only offences and the cost per offence will not fully represent states' needs for policing. The role of the police goes beyond bringing offenders to justice. Police primarily prevent and detect crime, preserve good order and protect and support the community. These facets of policing are not captured in the proposed assessments.
- Community policing should be differentially assessed because population cohorts and geographic constraints can necessitate different levels of police resourcing and is 'what states do'.
- Queensland supports the Commonwealth Grants Commission (CGC) recommendation to not include population weights for the criminal courts assessment. Additional research relating to Indigeneity and traffic related offences must be conducted before changes are made.
- Non-custodial expenses should be included in the corrective services assessment. Not including 16 per cent of expenditure is inconsistent with other assessments and detracts from horizontal fiscal equalisation (HFE).

Overview

The Justice category considers state expenditure on police, courts and corrective services.

The CGC has proposed significant changes to the police component within the Justice category for the 2020 Review. These changes shift the focus of the assessment from population characteristics to offender characteristics. There are no changes proposed to the courts or prisons assessment.

Assessing the number of offences and cost per offence does not fully capture states' needs

Queensland opposes the CGC staff's proposed model which is based solely on cost per offence for a population cohort. Offences and the cost per offence do not fully represent the need states have for policing. Policing goes beyond bringing offenders to justice. Police also prevent and detect crime, preserve good order and protect and support the community. It is a proactive approach to law enforcement rather than reactive. These facets of policing are not captured in the proposed metrics. Therefore, while the number of offences and the cost per offence influences state expenditure, this should not be the only measure. Queensland recommends the CGC:

- retains the current speciality policing assessment method
- develops a differential assessment for community policing separately.

Speciality policing assessment

Queensland acknowledges that the number of offenders in a population cohort impacts police expenditure. This is reflected in the current method for assessing speciality policing where costs for policing each population cohort increase with decreasing socio-economic status (SES). However, the method that CGC staff propose leads to a significantly different cost curve which shows higher costs for policing affluent regions throughout inner city suburbs. This does not reflect how police resources are managed.

Speciality policing should continue to be determined by the offence rate of a population cohort and a state's share of that population cohort. This best captures the number of offenders and their impacts on police service delivery.

Queensland acknowledges that the current 2007 Australian Institute of Criminology (AIC) data for measuring the age disability is now over a decade old and does not provide a contemporaneous split of offenders by age groups. Queensland recommends the CGC update this dataset for the 2020 Review. Once updated, the model will be based on higher quality data and the existing 12.5 per cent discount applied to the category can be removed.

In summary, Queensland recommends the CGC:

- retains the current speciality policing assessment method
- updates the AIC dataset for the age disability
- removes the 12.5 per cent discount applied for superseded (2007) AIC data.

Community policing assessment

Queensland supports the CGC staff's underlying proposal to use a differential assessment for community policing. Different communities, population cohorts and geographic constraints impact the level of police resources required per capita.

For example, Project Booyah, an initiative of the Queensland Police Service (QPS), provides support for young people who have disengaged from education. Through a collaborative approach, the project seeks to re-engage these youth in community, training and education by providing access to targeted programs. Indigenous youth are over-represented in the program with approximately 30 per cent of Booyah participants identifying as being of Aboriginal or Torres Strait Islander descent.

To overcome past legacies, disadvantage or other barriers, different population cohorts can require different community police resources. Therefore, Queensland recommends that CGC conduct research into how the community policing assessment could capture population characteristics that impact upon the cost of delivering these services, including identifying:

- population characteristics that have over-representation in community policing programs
- geographical constraints that impact costs of service and program delivery such as isolated communities.

Offender characteristics based on place of residence

Queensland supports using offender characteristics based on data from the Australian Bureau of Statistics (ABS) Census of Population and Housing (the Census) and the offender's residential address. There may be data issues due to the offenders' inaccurate recordings of residential addresses to police officers. However, as far as Queensland is aware, there are no suitable alternative data sources.

The current model does not fully capture all related costs

Queensland is concerned that not all service delivery challenges are captured in the current or proposed model. Queensland is required to perform additional duties in border control along its northern border with Papua New Guinea and throughout the Torres Strait. The Torres Strait has 130 islands and spans 42,000 square kilometres. Queensland is required to maintain a permanent state police presence utilising both sworn police officers and unsworn Torres Strait support officers on 5 inner Torres Strait communities. Furthermore, state police are required to conduct regular patrols of the remaining 15 communities and 14 outer islands via aircraft and water vessels.

These border control activities are costly, requiring QPS to acquire and maintain additional vessels and conduct mandatory state marine training for police support officers in the Torres Strait. Queensland's border control service delivery requirements are not offset by Commonwealth funding or Commonwealth personnel and constitutes a drain on Queensland's police resources. This service delivery challenge faced by Queensland is unique and the cost incurred by the state should be treated under an actual per capita assessment. It is critical the CGC investigates border protection requirements, and the costs incurred by Queensland and other states in meeting these obligations, for its 2020 Review.

Dividing legal service expenses into those associated with criminal matters and all other legal services is appropriate

Elements within the legal cluster

Queensland supports the CGC staff's recommendation to retain the current 60/40 split between criminal matters and all other legal services respectively. ABS Government Finance Statistics (GFS) data shows that criminal court services represent around 50 per cent of total court expenditure. However, not all states provide legal aid and public prosecution services, which are the services captured by GFS data. The average policy across all jurisdictions is to provide legal aid and public prosecution services, therefore states that do not provide these services should be assessed as though they do. If states that do not provide these services spend approximately the same proportion as states that do, then criminal court expenditure would represent 60 per cent of total courts expenditure and a 60/40 criminal to civil court split would be appropriate. A policy neutral judgment by the CGC would be consistent with other assessments and long term HFE outcomes.

Queensland has no issues with renaming the 'Courts component' to 'Legal Services component'.

Civil Court use drivers

Queensland supports the CGC's recommendation to retain the current equal per capita (EPC) assessment for civil court expenses until further information is obtained to determine drivers of finalisations and costs incurred by the states. Currently, Queensland has a limited line of sight into what causes the variation in the number of finalisations in civil court matters between states. The CGC should conduct further research into civil court cost drivers before a differential assessment could be implemented.

Assessing criminal legal matters by use rates based upon state data on the Indigenous status, SES and age characteristics of criminal court defendants

Queensland supports the CGC's recommendation to retain the current socio-demographic composition (SDC) assessment for criminal courts. The same drivers of cost should be retained.

Queensland supports updating age, Indigeneity and SES characteristics of defendants when Census data becomes available. This is consistent with other assessments. Census data are used widely throughout CGC assessments and is only updated on a Census year. Adjustments are made by the CGC between Census years. If the CGC was to update the age and Indigeneity data in the assessment then an adjustment would also be required for SES data to maintain its comparability.

Queensland understands, that for many reasons, individuals do sometimes change whether they identify as being of Indigenous origin across Census years. While significant changes in the identification of Indigenous persons in the 2016 Census could have large impacts on GST revenue distributions this is consistent with other assessments. It is not uncommon for the CGC assessment to have large changes resulting from updates in Census data. Population growth in Victoria and Western Australia is a key example of this during the 2016 Census.

No cost-weights should be applied to population groups

Queensland supports the CGC's recommendation to not apply population weightings to the criminal courts assessment for Indigenous or non-Indigenous population groups.

Before Queensland can support the weighting of population groups in the courts assessment the CGC should conduct research relating to the 40 per cent of cases in the magistrates' courts (traffic related offences) where Indigeneity is not captured. Queensland understand this is due to some states not collecting Indigeneity data for traffic related offences. Therefore, it is not appropriate for the CGC to implement a differential factor when that factor it is not represented in 40 per cent of the dataset.

This data inconsistency means that the CGC would not be able to determine if Indigenous persons are over or under represented in traffic related offences. Therefore, Queensland recommends that the CGC undertake additional research into Indigenous representation in traffic related offences or assume a population share of representation.

The 2015 Review method to assess prisons should be retained

Queensland supports the current SDC assessment used by the CGC for corrective services. However, non-custodial service delivery requirements of the states should be included into the corrective services assessment.

Queensland supports the use of current SES data provided from states as it is the most robust dataset available to capture the additional costs associated with various population cohorts.

Non-custodial expenses should be included in the assessment

In Queensland during 2015-16 the containment cost per prisoner per day was $177.29 while the cost of supervision per offender per day was $12.69. However, the number of offenders under supervision was much higher—17,000 as compared to around 7,000 inmates (July 2016 figures).

Therefore, Queensland estimates non-custodial offenders represented 16.7 per cent of operating cost in 2015-16 for Queensland. Furthermore, over the past 5 years non-custodial offender numbers are growing around 10 per cent faster per year than custodial offenders. Therefore, while non-custodial service delivery currently accounts for approximately 16 per cent of expenditure it is likely to increase to a greater share in the coming years.

This service delivery requirement should be captured in the CGC's assessment. Accounting for expenditure that equates to 16 per cent is consistent with other CGC assessments such as Transport where non-urban transport accounts for only 7 per cent of category expenditure. Moreover, non-custodial expenditure is likely to increase as a share of expenditure. The inclusion of non-custodial expenditure would better reflect the services that states are required to provide and improve HFE outcomes.

The 2015 Review method for regional costs and service delivery scale should be retained

Queensland supports regional cost adjustments. The conceptual case for increasing costs in regional areas is long established.

Assessing the ACT's need to use Australian Federal Police (AFP) officers

Queensland has identified no issues with the assessment of AFP officers in the ACT.

2.5 Mining Revenue

Queensland's position

- An aggregated mining assessment should be undertaken because it:
  - provides a better horizontal fiscal equalisation (HFE) outcome than the mineral by mineral approach in the long run, and
  - achieves balance between 'what states do' and policy neutrality.
- There is no clear reason for the proposed treatment that allows a 'dominant state' to retain 50 per cent of the revenue increase from a policy change. This treatment appears to only benefit Western Australia at the expense of other states.
- There are practical issues with the dominant state treatment. For example, it is unclear whether the treatment means dominant states will lose 50 per cent of a revenue change from a decrease in royalty rates and how the 50 per cent threshold will be implemented.
- Without properly considering these issues, it is likely that the assessment will require further adjustments and further distort a HFE outcome.
- The mining assessment needs to be discounted because the assessment is unable to accurately determine the average policy.

Overview

The Mining Revenue category covers royalties and grants in lieu of royalties collected by states on mining production. In the 2015 Review, mining revenue was assessed on a mineral by mineral basis using value of production as a capacity measure. In previous Reviews, a two-tier aggregated assessment was applied.

The assessment continues to struggle with policy neutrality. A mineral by mineral approach means that some states can have significant influence on the average policy and therefore the outcome of GST revenue redistribution.

As part of the 2020 Review, the Commonwealth Grants Commission (CGC) staff have proposed that if a dominant state makes a discretionary change to its royalty rates, the CGC will assess a portion of the revenue increase equal per capita (EPC) to ensure the dominant state retains at least 50 per cent of the revenue increase from a policy change.

In addition, revenue generated from activities banned in some states such as coal seam gas is currently assessed on an EPC basis.

Symmetry of the mining assessment

Mining revenue is different from most other taxes states collect. Different commodities are concentrated in different states and the amount a state can generate is highly dependent on commodity prices which are beyond the states control. As a result, the level of revenue follows the mining cycle.

An unavoidable outcome of a three-year average lagged approach is some states may be over or under equalised in one or several years. However, over the long run states are equalised. As a result, a HFE outcome relies on a consistent methodology being applied.

The mineral by mineral approach is not appropriate for assessing this category

In the 2015 Review, the mining assessment switched from a two-tier aggregated assessment to a mineral by mineral approach. The CGC chose a mineral by mineral approach based on the belief that the redistributions under this approach better reflect states underlying mining revenue capacity.

However, the sudden change from a two-tiered assessment to the mineral by mineral approach distorted HFE. Since the effective royalty rate of some commodities are higher than others, some states received more GST revenue due to the lag during the upturn of the mining cycle under a two-tiered assessment than it lost during the downturn of the mining cycle under a mineral by mineral assessment. This is illustrated by the following example.

State A produces commodity X which has a royalty rate of 6 per cent and State B produces commodity Y which has a royalty rate of 8 per cent. There is a lag in the assessment methodology, as a result $7 billion in value of production is not assessed in the upturn of the mining cycle and an additional $7 billion in value of production is assessed during the downturn of the mining cycle. Half way across the mining cycle, the assessment changes from an aggregated approach to a mineral by mineral approach. Because of this change over the mining cycle, State A would be assessed to have additional revenue of $70 million while State B would be assessed to have $70 million less revenue than it earnt.

Table 8 An illustration of the impact of a change to a mineral by mineral approach on HFE

State	Upturn of mining cycle			Downturn of mining cycle			Equalisation outcome over the cycle ($M)
	Assessed rate	Capacity not assessed due to lag ($B)	Unassessed revenue ($M)	Assessed rate	Capacity not assessed due to lag ($B)	Unassessed revenue ($M)	
State A	7%	7	490	6%	7	420	70
State B	7%	7	490	8%	7	560	-70

While this is a simple illustration, it reflects the underlying issue with the mining investment and the impact of a methodology change on the GST revenue redistribution. To ensure there is minimal distortions to a HFE outcome over the mining cycle, Queensland recommends reverting to the previous two-tier approach or an aggregated approach that results in a similar outcome.

The dominant state treatment should not be applied

Policy neutrality remains a concern for a mineral by mineral approach. As a solution, the CGC propose as part of the 2020 Review to allow a dominant state to retain at least 50 per cent of the additional revenue it generates from a policy change.

Queensland strongly opposes this proposal. Queensland does not see how this treatment could be an effective solution to the policy neutrality problem with the mining assessment. The justification for the 50 per cent threshold is unclear. The approach appears to only benefit Western Australia at the expense of other states. In addition, there are practical issues with introducing this treatment. For example, it is not clear whether the treatment will:

- be applied to all future policy changes on commodities with a dominant state or just for a period.
- mean the dominant state will lose half the revenue change from a decrease in royalty rate.

Without properly considering these issues, it is likely that the assessment will require further adjustments and further distort a HFE outcome. The only appropriate solution to policy neutrality is to return to an aggregated mining assessment.

EPC is an appropriate assessment for banned activities

Queensland agrees with the CGC staff proposal to continue to assess revenue from banned minerals on an EPC basis. Since most states have banned the exploration of coal seam gas, adopting this approach reflects well the average policy and represents 'what states do'. In addition, there does not appear to be data available for the CGC to estimate the value of production for states that have banned this activity.

Free on board value

Queensland recognises using free on board value may result in a more policy neutral assessment because of differences in state policies on deductions. However, Queensland is concerned states may have difficulties providing a comparable data set of free on board values for all commodities.

Queensland will require further information on how this will be applied in practice before a firm position can be provided.

A discount on the Mining Revenue assessment is needed to account for issues with policy neutrality

Queensland continues to consider discounting the Mining Revenue assessment is necessary because the assessment is unable to accurately determine the average policy. Regardless of the approach adopted, the assessment does not reflect well 'what states do' on average. This is largely due to significant differences in mining policies between the states.

This appears to be especially relevant to coal. While coal exploration occurs in several states, the type of coal deposits remains different between the states. In addition, different types of coal also attract different prices and different royalty rates. Assessing all types of coal together means there is significant variability in both the value of production due to volatility in commodity prices and the effective tax rate due to differences in state policies. For example, the total value of coal production in Australia increased by 2.3 per cent in 2014-15 before decreasing by 4.8 per cent in 2015-16. Over the same period, the average tax rate across Australia for coal decreased from 8.0 per cent to 6.9 per cent before raising again to 7.2 per cent. The variability in the effective tax rate used to determine a significant revenue source can lead to volatilities in the GST revenue redistribution even when there is no real change to the state's fiscal capacity. Introducing a discount to the assessment would dampen the effect of the effective tax rate variability on states' assessed fiscal capacities, leading to a more stable outcome.

Example: Aggregated vs Mineral by mineral assessment approaches

State A produces commodity X with royalty rate of 6 per cent, State B produces commodity Y with royalty rate of 8 per cent. Both State A and State B produce the same value of commodity X and Y each year. This is illustrated in Table 9.

Table 9 Parameters for example

State	A	B
Commodity	**X**	**Y**
Effective rates	6%	8%

Table 10 illustrates the assessed and unassessed mining capacity of both State A and State B under an aggregated assessment over a 12 months period. It assumes a two-year lag between actual and assessed value of production.

Table 10 Consistent treatment of mining under an aggregated assessment for State A and B

	Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
State A	Actual value of production ($M)	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	0	0	25,000
	Assessed value of production ($M)	0	0	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	25,000
	Unassessed capacity ($M)	1,000	2,000	1,750	1,250	750	250	-250	-750	-1,250	-1,750	-2,000	-1,000	-
	Average rate (%)	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
	Unassessed revenue ($M)	70	140	122.5	87.5	52.5	17.5	-17.5	-52.5	-87.5	-122.5	-140	-70	0
State B	Actual value of production ($M)	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	0	0	25,000
	Assessed value of production ($M)	0	0	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	25,000
	Unassessed capacity ($M)	1,000	2,000	1,750	1,250	750	250	-250	-750	-1,250	-1,750	-2,000	-1,000	-
	Average rate (%)	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
	Unassessed revenue ($M)	70	140	122.5	87.5	52.5	17.5	-17.5	-52.5	-87.5	-122.5	-140	-70	0

Table 10 above shows each year, both State A and State B have either a positive (during the first 6 years) unassessed revenue or a negative (during the last 6 years) unassessed revenue due to the lag in the assessment. Over the 12 years however, both State A and State B have a zero-net unassessed revenue and the assessment reflects accurately the first capacity of both State A and State B.

Figure 4 provides a graphic presentation of the above scenario which shows symmetry over the mining cycle.

Figure 4 Consistent treatment of mining under an aggregated assessment for States A and B

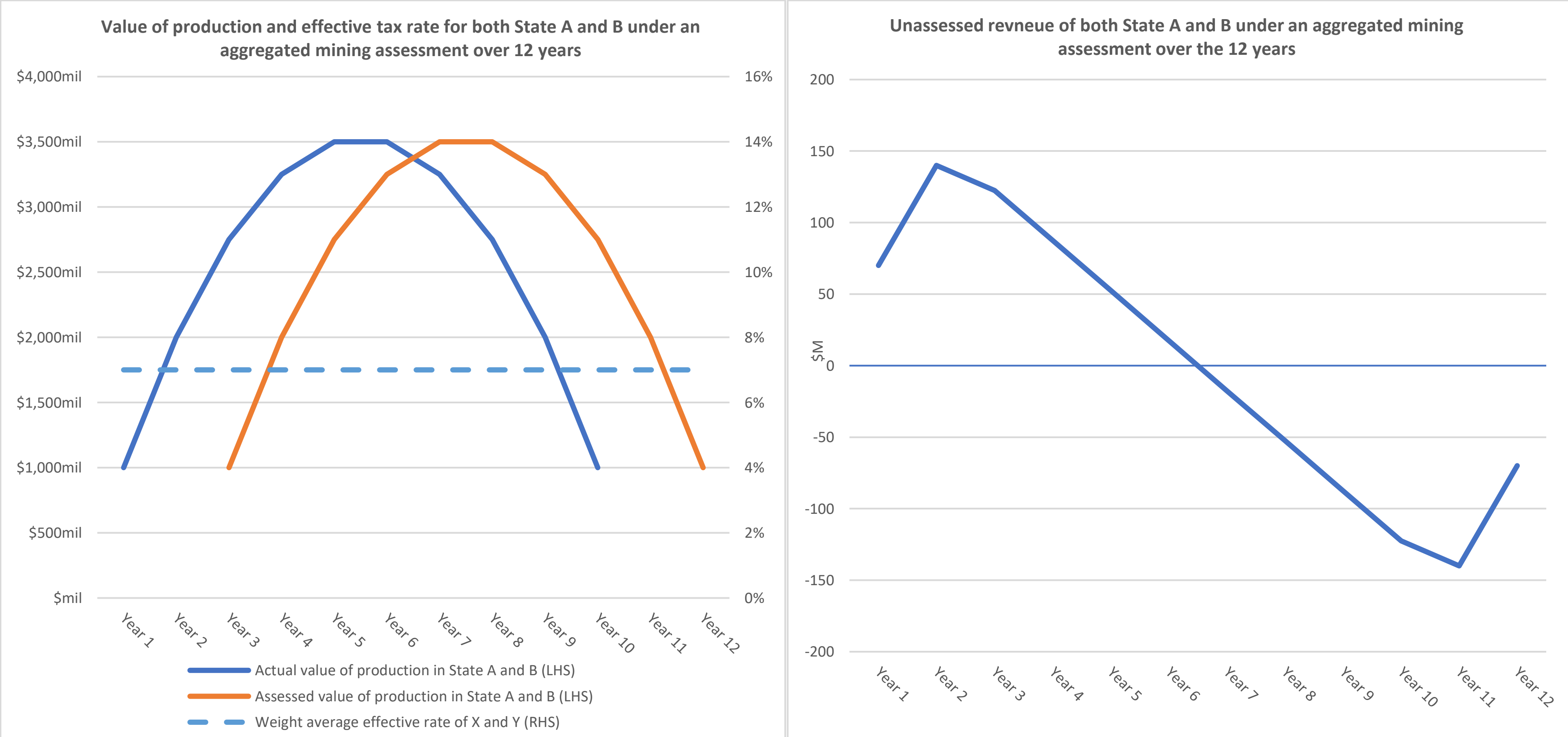


Table 11 illustrates the impact on states mining revenue from a switch to a mineral by mineral assessment from year seven, after six years of using an aggregated mining assessment.

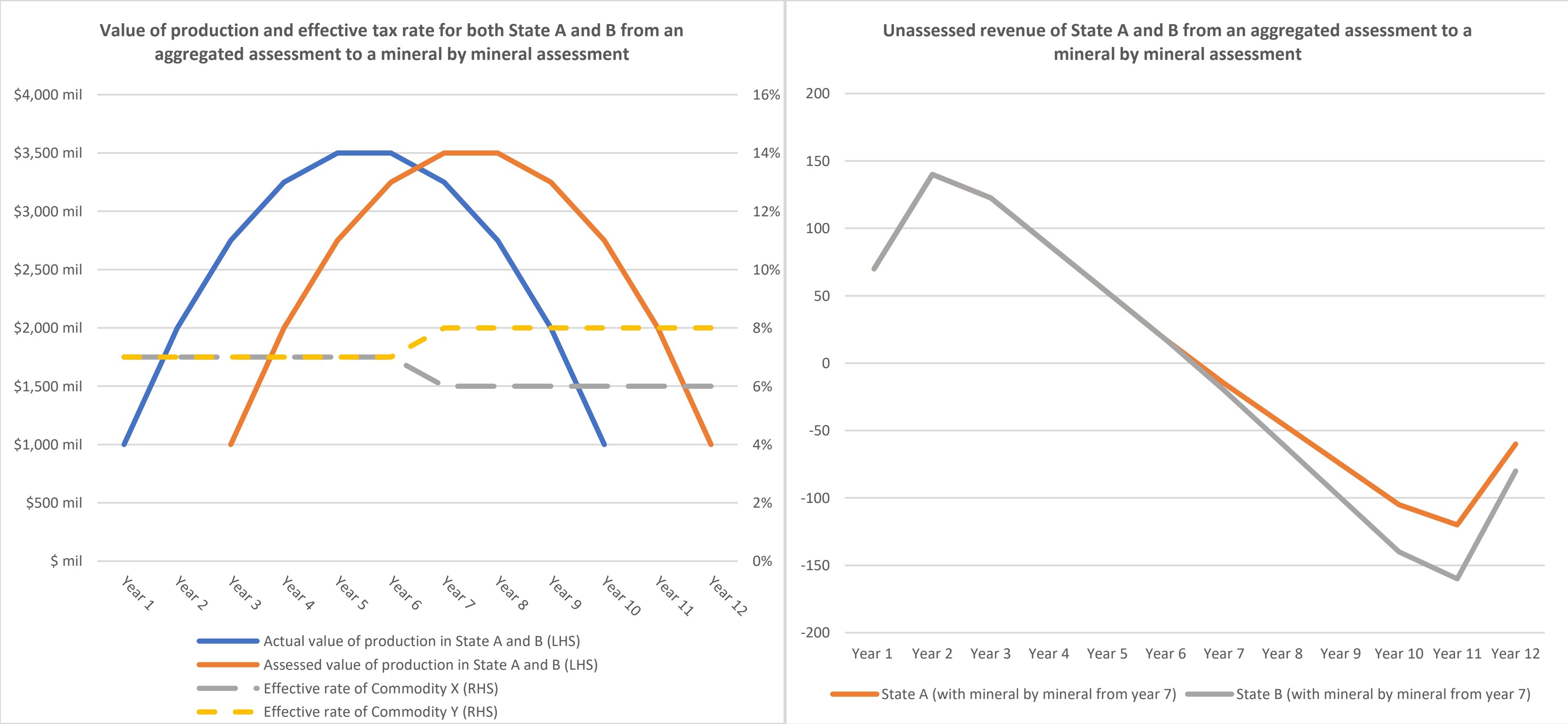
Table 11 A switch from an aggregated assessment to a mineral by mineral assessment for States A and B

	Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
State A	Actual value of production ($M)	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	0	0	25,000
	Assessed value of production ($M)	0	0	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	25,000
	Unassessed capacity ($M)	1,000	2,000	1,750	1,250	750	250	-250	-750	-1,250	-1,750	-2,000	-1,000	-
	Average rate (%)	7%	7%	7%	7%	7%	7%	6%	6%	6%	6%	6%	6%	
	Unassessed revenue ($M)	70	140	122.5	87.5	52.5	17.5	-15	-45	-75	-105	-120	-60	70
State B	Actual value of production ($M)	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	0	0	25,000
	Assessed value of production ($M)	0	0	1,000	2,000	2,750	3,250	3,500	3,500	3,250	2,750	2,000	1,000	25,000
	Unassessed capacity ($M)	1,000	2,000	1,750	1,250	750	250	-250	-750	-1,250	-1,750	-2,000	-1,000	-
	Average rate (%)	7%	7%	7%	7%	7%	7%	8%	8%	8%	8%	8%	8%	
	Unassessed revenue ($M)	70	140	122.5	87.5	52.5	17.5	-20	-60	-100	-140	-160	-80	-70

Under an aggregated assessment in the first six years, both State A and State B would be assessed at same effective rate of 7 per cent (weighted average rate of commodity X and Y). After a switch to mineral by mineral assessment, State A's value of production would be assessed at the effective rate of 6 per cent for commodity X while State B's value of production would be assessed with an effective rate of 8 per cent for commodity Y.

Figure 5 provides a graphic presentation of the above scenario.

Figure 5 A switch from an aggregated assessment to a mineral by mineral assessment for States A and B



Over the 12-year cycle, State A would have $70 million mining revenue not assessed for the distribution of GST revenue and as a result it would be over equalised. On the other hand, State B would be assessed to have $70 million more revenue and as a result it would be under equalised. GST revenue distributed based on these results therefore does not accurately reflect a full HFE outcome.

3.0 Expense Issues

3.1 Roads

Queensland's position

- The treatment of Commonwealth payments for National Network Roads (NNR) should be discounted to account for the limited influence states have over these payments.
- Options for assessing expenditure for bridges and tunnels should be considered further.
- Physical environment is a significant driver in road maintenance expenses and should be pursued by the Commonwealth Grants Commission (CGC) in the roads assessment.
- Any approach to assessing state needs in providing roads should account for policy differences between states. If alternate approaches considered do not achieve policy neutrality, the approaches applied in the 2015 Review should be retained.

Overview

The Roads expenses category considers expenses relating to urban, rural and local roads, as well as costs associated with bridges, tunnels and other services. Approximately 25 per cent of the assessment is currently assessed equal per capita (EPC) (with adjustments for wage costs), while the rest is assessed using various measures.

The assessment currently looks at road length for the assessed components, though this is done differently for urban, rural, and local roads:

- For rural road length, a mapping algorithm is used to calculate the length of roads connecting neighbouring localities larger than 400 persons by the fastest route.
- For urban roads, urban population is used as a proxy measure as no policy neutral measures could be developed.
- The local roads assessment allows for interstate differences in the length of roads in sparsely populated remote and very remote areas.

The Roads assessment cannot use state provided data, as there are considerable differences between state and local government managed roads.

Queensland is concerned that proposed changes will not maintain policy neutrality. The impacts of the proposed changes are not yet fully transparent to states.

Commonwealth payments for NNRs should be discounted

Following discussion with the Department of Infrastructure and Regional Development, the CGC found that:

- the concept of a National Network is fading as an influence on investment funding allocation
- roads on the NNR are generally better maintained than those not on the NNR because they are the most trafficked roads in the nation.

Selection of NNRs are largely dictated by the Commonwealth. While they support states that receive payments, these states have limited control over NNR projects and payments. This funding allocation is consistent with the continuing operation and improvement of the National Network, under which ongoing maintenance is necessary to ensure NNRs are fully operable and meet their intended purpose.

There may be elements of the National Network that directly benefits the state where the funding is provided rather than the National Network as a whole. However, there are significant difficulties in attributing the proportion of these payments to specific functions.

Queensland's position is that a 50 per cent exclusion of NNR Commonwealth payments should continue to be applied.

Any alternate approach to measuring rural road length should account for policy influences

Queensland recognises that the synthetic network currently used to determine rural road length has limitations and may not adequately consider 'what states do'. However, the synthetic network ensures a policy neutral approach as there are likely to be significant policy differences in the actual road network of states.

Any alternate approach to measuring rural road lengths should ensure policy neutrality is maintained. It is vital that the CGC work with states to ensure there is an adequate understanding of any alternate methods considered by the CGC, and implications of these methods.

An adjustment of actual road length data may capture 'what states do'. However, too great a reliance on the actual network could lead to policy differences influencing the assessment of states' rural roads. The current synthetic network achieves a better balance of achieving policy neutrality and capturing 'what states do' than an assessment based solely on actual road lengths.

If the CGC cannot identify an alternative that reflects policy neutrality, the current synthetic network approach of measuring rural road length should be retained.

Any approach to measuring urban road length should account for policy influences

Queensland notes that urban population does not perfectly capture challenges faced by different cities regarding their populations and densities.

Queensland notes the CGC staff's proposal to use state actual road networks rather than population as a proxy. Care must be taken to ensure resulting parameters are policy neutral, transparent, and consistent. As highlighted above for rural roads, urban roads lengths reported and managed by states can vary depending on the obligations of state and local governments.

Queensland would need to carefully consider any alternate assessment of road lengths considered by the CGC before a firm position can be provided. It is also noted that actual road lengths in urban centres have not been provided by the CGC to states. This has prevented states from analysing the impact and suitability of an actual road length approach.

While it has its limitations, using population as a proxy of urban road length reflects a balance of policy neutrality and 'what states do'. Therefore, if no suitable, policy neutral alternative can be identified, the current approach should be retained.

Treatment of local roads

Queensland notes that national spending on H3, H4 and H5 are largely concentrated in a New South Wales, Western Australia and Queensland respectively, meaning the reclassification of one or more categories could have a sizable effect on the overall assessment.

Should the local road length component become immaterial, the costs of local roads should be considered as part of the rural road length assessment, as these expenses appear most like rural roads than urban roads in function.

The use of spatial data to assess bridge and tunnel expenses should be investigated

Queensland supports differential assessment for bridge and tunnel expenses. Queensland agrees that there are many factors that may need to be considered in a thorough assessment, such as the length, type, number of lanes, and location of bridges or tunnels. The CGC will need to provide states with information regarding how disabilities would be assessed.

If the spatial data for bridges and tunnels do not produce a more representative assessment of expenses, bridge and tunnel expenses should be reallocated to the urban and rural road components with respective disabilities applied. This approach is more appropriate than an EPC assessment because factors such as light or heavy vehicle use and geographic location can significantly influence costs associated with bridges and tunnels.

A physical environment assessment for road maintenance expenses should be pursued

Queensland opposes the CGC staff proposal to not pursue the development of a physical environment assessment for road maintenance expenses. However, Queensland recognises the practical complications in determining a suitable and fair assessment which captures all appropriate elements.

For the 2015 Review, the CGC engaged Pottinger to consider the effects of physical environment on the construction and maintenance of roads and other assets. In their report[2], Pottinger found evidence that significant costs are associated with physical environment for the construction and maintenance of roads. While the report does not provide a solution to how costs should be factored into an assessment, Queensland maintains that the

[2] Pottinger (2013). *Optimising GST allocations.*

report’s findings should serve as justification that a physical environment assessment is appropriate and should continue to be considered by the CGC.

For this, Queensland recommends that the CGC consider and employ additional methods, expert advice or data (including state provided data) in arriving at a differential assessment for physical environment expenses.

3.2 Health

Queensland's position

- The direct approach to assessing all components of health expenditure should be retained because it more accurately represents state health expenditure needs.
- Queensland does not support the subtraction approach because it is based on the unreasonable assumption that similar state and non-state services are fully substitutable. There are several factors beyond private sector scale that drive state health activity including private health insurance coverage, state policies, income constraints, remoteness, and individual preferences.
- Queensland supports the Commonwealth Grants Commission (CGC) staff position that the scale of states' assessed needs should relate to the level of state spending and not to total community spending on medical services. This approach is consistent with the principles of horizontal fiscal equity (HFE).

Overview

The Health category covers state spending on public hospitals as well as community, public and other health services. The category includes three main disabilities:

- a socio-demographic composition (SDC) disability which recognises differences in the use and cost of services for different population groups and locations
- a non-state sector disability which recognises that the availability of state-like services from non-state health providers in each state influences the level of state spending
- a wage costs disability which recognises that state costs are affected by differences in wage costs between states.

In the 2015 Review, the CGC adopted a direct assessment approach to adjust for the provision of non-state health services in all health categories, replacing a subtraction approach. A direct approach focuses on the level of state expenditure that is assessed to be influenced by non-state service provision. In previous reviews, the CGC uses a subtraction approach. This focused on non-state expenditure that was assessed to fully offset state health expenditure needs.

The decision to move to a direct assessment was based on the CGC's experience with the subtraction approach and changes to the availability of data on state provided hospital services.

Under a direct assessment approach, the influence of the non-state sector is recognised in two ways:

- The SDC assessment recognises there are lower levels of state-like service provision with increasing remoteness, leading to an increase in use of similar state services. This higher use can be observed in the national cost data for state provided services.
- The calculation of a non-state sector adjustment reflecting different levels of state-like service provision in similar regions between states. The scale of these adjustments is based on the proportion of state spending affected by state-like service provision.

While many of the issues discussed in the 2020 draft assessment paper are relevant to the subtraction approach proposed by Western Australia, CGC staff are inclined to recommend retaining the direct assessment approach for all health components. Queensland supports not changing because:

- the direct approach more accurately represents state health expenditure needs
- the subtraction approach is based on the unreasonable assumption that similar state and non-state services are fully substitutable.

The direct approach should be retained

Queensland supports retaining the direct approach to assess all components of health expenses rather than reverting to a subtraction approach. The direct assessment approach more accurately represents state health expenditure needs and robust data is used to formulate the assessment. Since the introduction of the national health reforms and the establishment of the Independent Hospital Pricing Authority (IHPA) which collects nationally consistent hospital activity and cost data, the CGC has improved access to relevant data. Further, this data is updated annually. IHPA data remain the best available national data set that captures different aspects of health services provided by states.

The CGC also noted in its 2015 Review that it was unable to regularly update all elements of an assessment based on the subtraction approach, and this may result in biased estimates. Should the CGC revert to the subtraction approach, it would need to demonstrate improvements in the availability and quality of data since its 2015 Review. Queensland supports a direct assessment approach as data used by the CGC has practical advantages.

Queensland does not support the subtraction approach because the assumption that similar state and non-state services are fully substitutable is unreasonable. Several factors beyond private sector scale drive state health activity. These factors include private health insurance coverage, state policies, income constraints, remoteness, and individual preferences.

Many services provided by the non-state sector are similar to those provided by the public sector and may be potentially substitutable, such as obstetrics, gynaecology and allied health services. However, activity in a comparable non-state service is not evidence of full substitutability. The CGC assess actual state expenditure requirements and redistribute GST based on ‘what states do’. The CGC’s assessment of state expenditure requirements should not be based on non-state sector expenditure or activity.

Understanding the composition of state and non-state service provision highlights the complexity in determining the actual level of substitutability. For example, the majority of dental services are provided by private practitioners without restrictions on access, while access to state services is limited to children and concession card holders. Under this scenario the scale of the private sector has little influence on state expenditure requirements.

As noted by CGC staff, to be consistent with the HFE principle the scale of assessed needs must relate to the level of state spending and not total community spending on medical services. The direct approach addresses the complexity of state health expenditure requirements by adjusting for the non-state sector based on 'what states do'.

Queensland also notes the CGC staff observation that the profile of users in the non-state sector is different to the state sector. This observation is supported by health sector data. Queenslanders living in areas with relatively high levels of socio-economic disadvantage[3] have a higher relative utilisation of public hospital services[4]. In contrast, people living in areas of low disadvantage had the highest levels of private health insurance in Australia, based on 2011-12 data[5], and are most likely to fully or partly cover the costs of private health services. As a result, Queensland needs to devote more public health resources to the most disadvantaged parts of the population.

As noted by CGC staff, to be consistent with the CGC's objective and supporting principles the scale of states' assessed needs must relate to the level of state spending and not to total community spending on medical services. In other assessments, disabilities are scaled or weighted according to state expenditure and the CGC equalise state budgets. Given this, Queensland supports the CGC staff recommendation to not scale the outcomes of the direct assessment method based on a broad interpretation of what constitutes state-like services.

The CGC undertook significant analysis in its 2015 Review and engaged consultants to advise on levels of substitutability. The CGC has since concluded that; the issues around substitutability are complex; there is significant uncertainty around what constitutes a substitutable state service; and the level of substitutability was less than previously assumed. Should the CGC revert to an assessment based on the subtraction approach, it would need a robust empirical justification for this change. The CGC would need to present evidence that the complexity and uncertainties identified in the 2015 Review are no longer relevant.

No issue with the CGC re-evaluating substitutability levels and associated indicators adopted in the 2015 Review

Queensland does not object to the CGC re-evaluating the proportion of state services affected by the non-state sector and re-evaluating the data to be used as an indicator of non-state service provision. However, a conservative approach to estimating substitutability levels is appropriate for the Health category given the complexity and uncertainty around what constitutes a substitutable state service, as discussed in the previous section.

Queensland acknowledge the CGC staff concerns regarding the relatively limited information available to determine overall substitutability of community health services.

[3] Measured by ABS Socio-Economic Indexes for Areas quintiles.

[4] Queensland Health data.

[5] ABS 4364.0.55.002 - Australian Health Survey: Health Service Usage and Health Related Actions, 2011-12.

The CGC should consider a more conservative estimate of the level of substitutability in the community health services area. Queensland's experience is that non-state provision of community based services, particularly primary care and treatments for less severe disorders, is not likely to have a significant impact on Queensland's expenditure requirements.

Recent research highlights that community services are largely funded by the states and tend to focus on particular groups such as Indigenous people, refugees and people on low incomes[6]. Delivering health services to these groups is far more expensive than to other population groups.

Queensland's per capita expenditure on community health services is significantly higher in remote locations, home to relatively large Indigenous and low socio-economic populations. For example, approximately 52 per cent of Queensland's primary health care expenditure goes to Queensland's four most remote hospital and health care regions.

Should the CGC fail to identify datasets that address uncertainty around substitutability of community health services, the CGC should reduce the estimated level of substitutability for this component.

Queensland notes the CGC's observation in its 2015 Review that the relative use of GP services by Indigenous and low socio-economic populations appears low compared with state provided community health services. Further, in the 2020 draft assessment paper, CGC staff also raised concerns regarding how closely the SDC profile of people using GP services reflects the profile of people using other non-state provided community health services.

Should the CGC fail to identify datasets that address uncertainty around the SDC of non-state community health service use, the CGC should increase the discount in the non-state sector adjustment of this component.

The CGC should consult with states on the appropriateness of any proposed changes to substitutability levels or proxy indicators prior to implementing any changes. Queensland will need to view any data proposed to be used before a firm position can be provided.

[6] Duckett, S. and Swerissen, H. (2018). *Mapping primary care in Australia*. Grattan Institute.

3.3 Administrative Scale

Queensland's position

- Queensland acknowledges an Administrative Scale disability exists, but maintains there is a need to reconsider what Administrative Scale costs should encompass.
- In determining the Administrative Scale assessment, the Commonwealth Grants Commission (CGC) should not consider junior and ancillary staff in organisational structures.
- The impact of other efficiency measures implemented by smaller states such as providing shared services also requires further consideration when assessing Administrative Scale expenses at a whole-of-government level.
- Queensland supports Administrative Scale expenses remaining as a component of the Other Expenses category rather than being separately identified in each expense category.

Overview

The Administrative Scale disability recognises the costs states incur in delivering services which are independent of the size of the service population. The costs are measured on the basis that states follow average policies, including operating with average efficiency, in delivering the services. As the Administrative Scale assessment reflects the costs of providing services which are independent of the size of the service population, each state has the same requirement. The appropriate assessment is therefore an equal per state assessment, which implies a greater per capita cost for the less populous states.

The concept of Administrative Scale expenses is acknowledged but more work is needed to ensure a robust quantification of these expenses

Queensland acknowledges the strong conceptual case for an Administrative Scale disability assessment to be included in the assessment of the fiscal capacities of states. However, Queensland remains concerned about the robustness of the method currently used to quantify this disability. Queensland maintains its position that more consideration is needed in terms of determining the allocation of resources to government organisational structures, particularly in terms of quantifying junior staff (supporting managers and officers). More information is required to support the relevance of these junior staff to the minimum cost of state administration.

Queensland also maintains its position that the impact of other efficiency measures implemented by smaller states such as providing shared services requires further consideration when assessing Administrative Scale expenses at a whole-of-government level. Queensland acknowledges that Administrative Scale expenses are intended to assess the expenses incurred regardless of population sizes. However, the omission of these issues from the assessment consideration would risk Administrative Scale expenses being overstated.

Queensland has no issues with the proposal to re-estimate Administrative Scale expenses for each expenses category using the bottom-up and top-down approaches. However, the outcomes of any re-estimation will need to be carefully considered before Queensland can form a firm position on this issue.

Queensland would also be supportive of any research and analysis with regards to quantifying the proportion of Administrative Scale expenses to which the wage costs factor should apply. However, Queensland would need to review the output of any such investigations, including the methodological approach, before a firm position could be provided.

Administrative Scale expenses should remain wholly as one component of Other Expenses

The 2015 Review approach to include all Administrative Scale expenses in the Other Expenses category should be maintained in the 2020 Review. This is preferable to breaking the expenses up into categories as it provides a simpler and easier to follow presentation of the Administrative Scale assessment and a clearer presentation of Other Expense categories and their associated drivers. It is noted that this approach also avoids the need to create a separate small expense component in each expense category.

3.4 Housing

Queensland's position

- It is appropriate to combine elements of the Australian Bureau of Statistics (ABS) Census of Population and Housing (the Census) and Australian Institute of Health and Welfare (AIHW) data to get the best elements of both data sets. The resulting "hybrid" data should only be used for the assessment if it remains robust and reliable.
- Queensland agrees that land values are not recurrent, and land does not depreciate. Therefore, land values should not be included in the assessment of recurrent expenditure.
- Queensland agrees the Indigenous cost weight and the location factor should be updated using the latest available data.
- In Queensland, Indigenous households living in state housing are twice as likely to have rental arrears compared to non-Indigenous households. Due to this, the assessment should provide an adjustment for Indigenous households in the rental revenue assessment.

Overview

The Housing category includes expenses on:

- all social housing services provided by the general government sector and public non-financial corporations and subsidies to community housing providers
- first home owner expenses, such as First Home Owner Grants and stamp duty concessions
- private rental assistance and other forms of home purchase assistance
- revenue from rents for social housing.

Assessments are made for services expenses, revenue, and first home owner expenses.

Assessment should weight Indigenous households in the rental revenue assessment

Queensland notes the CGC adjustment to Indigenous households in the expense assessment of the Housing category and would support investigation into whether weighting of Indigenous household would be appropriate in the rental income assessment.

In Queensland, 20 per cent of all Aboriginal and Torres Strait Islander households are 4 weeks or more in rental arrears in social housing (over $1 million). This compares to 8.93 per cent of non-Indigenous households accounting for $0.6 million. Therefore, Indigenous households are more than twice as likely to be in rental arrears than non-Indigenous households. Due to the significant difference between Indigenous and non-Indigenous household's rental arrears Queensland supports an adjustment of Indigenous households in the rental income assessment of the housing assessment to accurately reflect the states service delivery challenges.

Changing client profile

The Housing category does not consider socio-economic status (SES) as a driving factor in costs to the states.

Currently 70 per cent of all applicants on Queensland's housing register are characterised as having high or very high needs and 90 per cent of new households assisted in government owned and managed social housing are in high or very high need categories. Moreover, 50 per cent of all social housing households have a person with a disability. Queensland expects this trend to be similar across social housing in all states.

Due to the additional services that are required to be provided to persons with disabilities or are in high and very high needs the CGC's assessment of housing expenditure should consider this as a disability. Queensland supports further investigation into whether a SES differential factor should be included into the Housing category to capture this effect.

Queensland has no issues with the proposed approach for revenue items categorised as Other Revenue

Queensland acknowledges the difficulties in reconciling Census and AIHW data on social housing household numbers. Queensland notes the differences in reliability between different elements of the two data sets and agrees that it is appropriate to combine the more reliable features of both data sets. Queensland agrees that under such an approach it would be appropriate to undertake further investigations into what adjustments would be required for the two data sets to be combined in this way.

It is however noted that combining Census data with AIHW data, with their respective limitations, would be a difficult task with a high risk to the robustness and reliability of any resulting assessment process if great care is not given to combining these data sets. Queensland will therefore need to carefully consider any resulting "hybrid" data sets produced before a firm position could be provided. The CGC would benefit from undertaking work to determine what data, if available, would best reflect the differences in state needs and then commission work to collect such data specifically for CGC assessment purposes.

Land values should not be included in the assessment

Queensland supports the proposal not to include land values into the assessment. Land values are not recurrent expenditure and land does not depreciate. Therefore, land values as a disability in the Housing category would not be appropriate and should not be included.

Affordable housing expenses should be treated the same way as social housing

Queensland acknowledges that very limited reliable information is available on state spending on affordable housing and agree that any expenses incurred are likely to be small. Queensland therefore agrees that it is appropriate not to make a separate assessment of spending on affordable housing.

Indigenous cost weight and the location factor need to reflect the most recent data available

Location and Indigenous status are key drivers behind social housing expenses. It is therefore vital that this element is based on the most reliable data available. Queensland supports the CGC staff proposal to agree to the Indigenous cost weight and the location factor using the latest available data.

3.5 Services to Communities

Queensland's position

- Further information on the intended assessment methodology for electricity and water subsidies is required before Queensland can provide a firm position.
- The current approach to assessing Indigenous community development needs is appropriate and should be maintained.
- Queensland has no issues with the proposal to move expenses assessed equal per capita (EPC) from the Services to Communities category to the Other Expenses category.

Overview

The Services to Communities category includes expenses on essential and support services that states provide to their communities. This category covers state subsidies for the provision of electricity, water, and wastewater services (utilities subsidies). The category also covers a range of expenses for the administration of communities and community development, community amenities and environmental protection services.

Queensland cannot provide a firm position on the proposed assessment of subsidies before the intended analysis is complete

Electricity, water, and wastewater subsidies were jointly assessed in the 2015 Review. For the 2020 Review, Commonwealth Grants Commission (CGC) staff propose to use state-provided data to develop separate assessments of electricity and water subsidies. This was the approach in the 2010 Review. Queensland has no issues with this proposal.

Queensland has no issues with the proposed recommendations to only differentially assess electricity subsidies which are the result of unavoidably high costs. However, further information on the analysis and assessment methodology is needed before a firm position on this proposal can be provided.

It is noted that data has also been collected to support investigation into the cost drivers for water subsidies and establish the threshold for full cost recovery.

Queensland also has no issues with the CGC staff's proposed approach to assessing water service needs. However, further information on the analysis and assessment methodology is needed before a firm position on this proposal can be provided.

The Indigenous community development component is appropriate

Queensland agrees that the Indigenous community development component should include general revenue grants given to Indigenous populations in discrete Indigenous communities and that the grant payments provide a reliable estimate of needs.

Queensland supports the CGC staff proposal to continue to use the Indigenous population living in these communities to estimate the disability for the Indigenous community development assessment, and applying wage costs and regional costs disabilities.

Queensland supports assessing Indigenous community development expenses in a separate component of the Services to Communities category to improve transparency and simplify the assessment. These changes should be presentational only and should not affect calculations of GST revenue shares.

EPC assessment is appropriate for other community development and amenities, and environmental protection

Community development services are provided to the entire population and so these expenses should be assessed as EPC. Queensland has no objection to wage costs and regional costs disabilities being applied.

Queensland acknowledges it is not practical to disaggregate expenses or identify a single broad indicator for assessing spending on this function. Therefore, Queensland supports that environmental protection expenses continue to be assessed EPC. Queensland has no issues with the application of a wage cost disability or to the consideration of a regional cost disability to environmental protection expenses.

Queensland supports the movement of other community development and amenities expenses, and environmental protection expenses from the Services to Communities category to the Other Expenses category. This should make no difference to the overall relativities.

Queensland supports improvements to the transparency of the assessments provided the redistribution of GST revenue is not impacted.

Non-state sector provision for electricity, water and environmental protection

Queensland acknowledges the difficulties with quantifying the influence non-state sector spending may have on services to the communities. Therefore, Queensland supports the proposal to not assess the effect of the non-state sector on the level of electricity, water, and wastewater subsidies, or on the provision of environmental protection services.

3.6 Welfare

Queensland's position

- The assessment approaches across the Welfare category remain appropriate.

Overview

The Welfare category encompasses state expenses on the provision of welfare services, comprising:

- family and child services (dominated by child protection-related expenses)
- aged care services
- services for people with a disability
- general welfare services (including concessions, assistance to the homeless, women's shelters and information, advice and referral services).

Current assessment approach remains appropriate

Queensland agrees that the current assessment approach for family and child services remains appropriate. However, Queensland has no issues with the Commonwealth Grants Commission (CGC) staff proposal to track further development of the unit record database of the Australian Institute of Health and Welfare, including availability of New South Wales data and the introduction of a cultural and linguistic diversity and/or disability measure.

Queensland has identified no issues with the CGC staff proposal to merge residual aged care expenses with other general welfare expenses and assess them using a general low socio-economic status measure.

Queensland has no issues with the CGC staff proposal to assess National Disability Insurance Scheme (NDIS) expenses actual per capita at full implementation in the 2020 Review. Queensland has no concerns with CGC staff raising the assessment of NDIS expenses as part of the process for new issues in the 2019 Update. Queensland will need to consider this matter during this process before any firm position can be provided.

Queensland agrees that basing the assessment of concession needs on the number of pensioner Concession Card and Health Care Card holders in each state as a proportion of state population is appropriate and should be maintained.

3.7 Wage Costs

Queensland's position

- Queensland is concerned that the current model does not fully capture the differences in interstate wages.
- Further investigations by the Commonwealth Grants Commission (CGC) are required to better understand what drives the differences between wage costs.

Overview

State governments employ about one in ten Australian workers. Wages and salaries represent the largest component of state expenditure and account for a significant share of expenditure in nearly every expense category. The Wage Costs category addresses a global disability, rather than the expenses associated with an individual category of service delivery (such as schools or health spending).

Assumptions underpinning the wages assessment

Queensland does not agree that private sector wages act as a suitable proxy for public sector wages on their own. There are numerous public-sector wage pressures that states are unable to control. For example, the cost of living or the ability to attract employees to remote regions. The current model, which only looks at private sector wages, does not reliably capture these external pressures.

Queensland acknowledges that the transition from using the Survey of Education and Training to the Characteristics of Employment Survey has improved the ability to capture state differences in wages. However, it is still not clear if the model accurately achieves this. The CGC should investigate other factors that drive the differences between wage costs across states.

3.8 Post-Secondary Education

Queensland's position

- Queensland supports the inclusion of remote and Indigenous cost loadings in this category.
- Queensland agrees that post-secondary expenses should be netted off by fee-for-service revenue but not fees from students participating in government subsidised training courses.
- Queensland has no issues with Commonwealth Grants Commission (CGC) staff investigating qualification level as a potential cost driver. However, further information, including the output from such investigations and the conceptual reasoning underpinning any such output, is required before Queensland can provide a firm position on this matter.

Overview

The Post-Secondary Education category covers state expenses on vocational education and training and other higher education. The Post-Secondary Education category includes three main disabilities:

- a socio-demographic composition disability, to account for differences in the use and cost of services for different population groups and locations
- a cross-border disability, to account for the ACT providing post-secondary education to New South Wales residents
- a wage costs disability, to account for the impact of differences in wage costs between states.

Remoteness and Indigenous cost loadings should be included

Queensland notes that additional assistance is required to provide post-secondary education to Indigenous students to achieve equitable education outcomes. Queensland therefore supports the CGC staff proposal to retain an Indigenous cost loading in the 2020 Review. It is also appropriate to base this loading on up-to-date data.

Queensland agrees there is a strong conceptual case for applying a regional cost loading in this category and notes CGC staff have developed a more disaggregated assessment approach in relation to remoteness. Queensland has no concerns with the reliability of the new category specific remoteness loadings. Queensland supports the recommendation to adopt the new category specific regional cost loadings and use them in the assessment on an undiscounted basis.

No issues with investigating qualification level as a potential cost driver but further information is needed

Queensland notes that CGC staff have observed variation in the subsidies provided for different qualification level courses. Queensland agrees with investigations being undertaken by CGC staff to determine whether a qualification level loading should be included in the assessment. However, Queensland will require further information in terms of the output from any investigations and the conceptual reasoning underpinning this output before Queensland can form a firm position on this matter.

No issues with the omission of industry mix or training providers from the assessment

Queensland acknowledges the difficulties in obtaining robust data to adequately assess industry mix on post-secondary education expenses. Queensland expects the differences in subsidies provided, and therefore expenses incurred across different education courses, to be policy driven. Therefore, Queensland supports the omission of a state course mix disability in this assessment.

Only fee-for-service revenue should be deducted from expenses

Queensland has no issues with the CGC staff proposal to not investigate a disability based on the sector of training providers.

Queensland agrees that:

- fee-for-service revenue should be deducted from state expenses before making an assessment
- fees from students participating in government subsidised training courses should not be deducted from state expenses.

Queensland supports the CGC staff proposal to make a data adjustment to ensure only fee-for-service revenue is netted off expenses, if it is material.

3.9 Services to Industry

Queensland's position

- Queensland has no issues with any of the proposed recommendations for this category.

Overview

The Services to Industry category covers state spending on the regulation and development of businesses and industries, and other economic affairs. Some spending relates to specific industries including agriculture, forestry, mining, manufacturing, tourism and construction. Other spending relates to all businesses, or to consumers.

Most of this category (78 per cent of category expenses in the 2018 Update) are assessed based on state population shares. Wage costs and regional costs are also applied within this category.

No issues with the proposed approach to assessing this category for the 2020 Review

Queensland acknowledges that there are unlikely to be significant changes to the approach to the Services to Industry category in the 2020 Review. Changes intended to be made within this category relate to updating data and re-estimating some expense items. Queensland has no issues with any of the Commonwealth Grants Commission staff's proposed recommendations relating to the Services to Industry category for the 2020 Review.

3.10 Other Expenses

Queensland's position

- Given the considerable attention natural disaster relief expenses received in previous Reviews and Updates, the approach is now mature and robust. Furthermore, the comprehensive and strict requirements under the Natural Disasters Relief and Recovery Arrangements (NDRRA) framework provide limited (if any) opportunities for policy differences to drive any material variation in expenses. Therefore, there should be no further changes to this assessment that relate to NDRRA.
- Inclusion of Administrative Scale and expenses assessed as equal per capita (EPC) within the Other Expenses category for simplicity in presentation is appropriate.

Overview

The Other Expenses category comprises expenses not separately assessed in other categories. Most of the expenses in this category are classified to the service expenses component and, apart from location disabilities, are assessed EPC.

Natural disaster relief expenses are a key driver of distribution within this category. Considerable attention has already been paid towards the assessment of natural disaster relief expenses. Therefore, the approach should now be considered robust and not require any significant changes.

The major changes proposed with regards to the Other Expenses category include:

- removing certain components due to insufficient evidence to support any significant disabilities across states
- including Administrative Scale and most state expenses assessed EPC to simplify the presentation of functional categories.

Queensland supports efforts to improve to the transparency of assessments provided HFE is not compromised.

The current natural disaster relief approach is appropriate and should be maintained

Natural disaster relief expenses have been subject to considerable scrutiny and investigations as part of previous Commonwealth Grants Commission (CGC) Reviews and Updates. These reviews have confirmed that an actual per capita (APC) assessment is the most appropriate approach to assessing state needs against natural disaster relief and recovery.

The Australian Government reimburses states a proportion of expenses incurred due to a natural disaster, provided these expenses have been assessed as being eligible under the NDRRA Determination's requirements. The natural disaster relief component of Other Expenses, is assessed as the proportion of natural disaster expenses, assessed as eligible, that were not reimbursed under the NDRRA framework.

The NDRRA operates in accordance with the following key principles:

- The funding provided is intended to be in the nature of an emergency helping hand for those in need, rather than to provide compensation for losses or restore lifestyles to their pre-disaster standard.
- The funding provided is not intended to replace the need for appropriate self-help strategies, such as acquiring insurance or undertaking appropriate disaster mitigation.
- States and local governments should draw on their own resources to provide disaster assistance before seeking support from the Australian Government through the NDRRA.
- The funding provided should be used to complement and promote disaster resilience outcomes for affected individuals and communities.
- The provision of funding and assistance is to achieve an efficient allocation of resources and assistance should provide value-for-money outcomes for all levels of government.

Further to this, the NDRRA Determination sets out comprehensive and strict requirements that each state must adhere to be eligible for assistance. These include the following:

- The state must notify the Australian Government Department responsible for administering NDRRA claims of a natural disaster within three months of the state being aware of the natural disaster’s occurrence.
- The state must publicly acknowledge any Australian Government assistance.
- States are responsible for determining an appropriate natural disaster mitigation strategy and must provide evidence of the implementation of such strategies when submitting a claim.
- A state must have reasonably adequate capital or access to capital to fund liabilities or infrastructure losses before being granted access to funds.
- Each state must provide details of all eligible measures which may be made available during that financial year in response to an eligible disaster.
- States must keep an accurate audit trail for seven years from the end of each financial year in which expenditure is claimed, or until the claim is acquitted.

Failure to meet any of these requirements could lead to expenses being assessed an ineligible for assistance. This would also make the expenses out of scope for the purposes of assessing natural disaster relief needs. Therefore, the funding assistance arrangements will be consistent across states. Given this, it seems unlikely that there could be any material variation in expenses driven by policy differences applied across the states.

The CGC also has robust measures in place to ensure state reported NDRRA expenditure and assistance data are accurate. These measures include:

- collecting data from Emergency Management Australia to validate state estimates
- applying the thresholds and reimbursement allowances in the NDRRA Determination to confirm the accuracy of state reported NDRRA assistance estimates
- correcting any material revisions to state data immediately to ensure the correct net expenses are included in the assessment.

Given the above steps, the actual expenditure incurred should accurately reflect states' relative needs in terms of natural disaster relief and recover. Queensland's position is therefore that natural disaster relief expenses should continue to be assessed on an APC basis.

Queensland has no issues with the CGC staff proposal to continue adjusting the budget to ensure:

- natural disaster relief expenses under the NDRRA framework are only assessed once
- net natural disaster relief expenses funded from local government revenue are not included in the assessment because they do not affect a state's fiscal capacity
- Commonwealth NDRRA assistance payments through states to local government (for example, for roads) are not included in category expenses.

Treating natural disaster mitigation expenses as EPC is reasonable given data difficulties

Queensland acknowledges that a reliable and robust assessment of natural disaster mitigation expenses would be problematic due to difficulties in obtaining relevant expense data and identifying a clear driver behind these expenses. Queensland therefore has no issues with natural disaster mitigation expenses being assessed as EPC.

No issues with the omission of Capital grants to local government for community amenities, National parks and wildlife services, or Cross border expenses from the 2020 Review

Queensland notes the difficulties in identifying and quantifying the drivers of expenses for Capital grants to local government for community amenities. Queensland has no issues with the removal of this assessment item for the 2020 Review.

Queensland acknowledges the difficulties in:

- identifying and quantifying the policy influences on the number and size of national parks
- obtaining reliable data to measure relative cost influences.

Queensland has no issues with the assessment of national parks and wildlife services being omitted from the 2020 Review. Queensland has no issues with the CGC staff proposed recommendation to not assess a cross-border disability for library, sports grounds, and other cultural and recreational services provided to New South Wales residents unless the ACT is able to provide current data to substantiate an assessment.

Inclusion of Administrative Scale and expenses assessed as EPC within the Other Expenses category for simplicity in presentation is appropriate

Including Administrative Scale and expenses assessed as EPC within the Other Expenses category, rather than separately identifying these items as part of each expense category, should make no material difference in the overall relativities. It is noted that CGC staff think the movement of these items will simplify the presentation of functional categories.

Queensland supports these improvements to the transparency of the assessments provided any changes to presentation do not impact the distribution of GST revenue.

3.11 Other Disabilities

Queensland's position

- Previous approaches to assessing Cross-border disabilities remain appropriate and should be retained.
- Queensland acknowledges police services are more expensive in the ACT.
- An actual per capita (APC) approach remains appropriate for assessing Native title expenses.

Overview

The Other Disabilities category considers the following issues:

- Cross-border: when residents of one state use the services provided in another.
- National capital allowances: recognising the unavoidable extra costs incurred by the ACT because of Canberra's status as the National capital or because of legacies inherited from the Commonwealth at self-government.
- Native title and land rights—recognising the Commonwealth's:
  - *Native Title Act 1993* — in all states
  - *Aboriginal Land Rights (Northern Territory) Act 1976* — in the Northern Territory.

The 2015 Review approaches for cross-border disabilities are appropriate for the 2020 Review

Queensland acknowledges there is a material level of some services provided by the ACT which are used by New South Wales residents. Queensland also acknowledges there are unlikely to be any material cross-border use of services between other Australian states.

The approaches applied in the 2015 Review to cross-border disabilities for schools, post-secondary education, roads, hospitals and health expenses appear to be reasonable. Queensland therefore supports these approaches being maintained. However, Queensland also supports the Commonwealth Grants Commission (CGC) staff proposal to consider whether a community health specific method could be used to measure a cross-border factor.

Cross-border use of any other services are unlikely to be material. Therefore, Queensland supports the proposal to not apply a cross-border factor to residual state disability expenses.

Police services are more expensive in the ACT

Queensland supports the CGC staff proposal to discontinue all the planning allowances previously applied to the ACT. However, Queensland acknowledges the ACT has little practical alternative but to use the Australian Federal Police as its police force, which pays above average salaries to its employees. Queensland supports the CGC staff proposal to retain the police allowance and the 2015 Review method for calculating it and assessing it as a separate factor in the Justice category.

An APC approach is appropriate for Native title expenses

Native title and land rights related expenses are currently assessed APC, recognising that state spending is the result of Commonwealth legislation and policies. Native title expenses are driven by the size of the Indigenous population, the extent of areas of undeveloped land, and mining and agricultural activities. States have little influence on these expenses. It is therefore appropriate to continue to assess the native title component of the Native title and land rights assessment on an APC basis.

Queensland supports the CGC staff proposal to collect state expenses on land rights to investigate whether an all-state assessment of land rights is warranted.

4.0 Revenue and Investment Issues

4.1 Investment

Queensland's position

- Separately assessing investment in all category and component service areas would assist in making the assessment more accessible and transparent.
- The three-year averaging of stock disabilities should be removed to simplify the investment assessments.
- The discount applied on the assessment of the dilution of net financial assets or liabilities through population growth is immaterial and no longer warranted.

Overview

The Investment (physical and financial assets) category covers state investment in the acquisition of infrastructure, land, depreciation and net lending. Investment and depreciation is assessed for all expense categories. However, roads, urban transport, other services, land and other assets are assessed separately because different factors affect those functions.

The current main drivers of the assessment are population growth, other changes in state circumstances affecting its asset requirements, and relative cost levels. Under the current approach, a state is assumed to have an average per capita share of assets, adjusted according to the state's specific capital requirements. At the end of each year, this is revised to reflect changes in the state's population shares, and changes to the state's specific capital requirements.

Given the lumpy nature of investment in infrastructure and the significant policy influence in most major infrastructure decisions, developing a policy neutral assessment that reflects 'what states do' is challenging.

As part of the 2020 Review, the major changes proposed by Commonwealth Grants Commission (CGC) staff to improve the Investment assessments include:

- separately assessing investment in all category and component service areas (i.e. undertaking separate assessments for school education, health, housing, etc)
- removing three-year averaging of stock disabilities
- replacing population growth with category specific growth measures
- using the assessment year's stock disability for both opening and closing stocks
- removing the 12.5 per cent discount in the assessment of net financial assets.

Functionalising the investment assessment would help accessibility and transparency

Separately assessing investments in each category will make this assessment less complex and more transparent. Queensland supports this proposed improvement to the assessment.

The investment category redistributes more than $1 billion in GST revenue every year. However, combining the various categories makes it hard to understand the reasons behind this redistribution. For example, a state's investment for 'other services' includes stock factors, cost factors, population change, and the national level of investment over the three assessment years for the ten services the assessment covers. A state's investment need for 'other services' in a particular year is impacted by the complex interactions between all these factors. As a result, it is difficult to determine the factors that are driving each state's assessed investment needs.

While Queensland supports changes that make assessments less complex and more transparent, such changes should not lead to any material changes in the redistribution of GST revenue. GST revenue shares should only change if states' needs change. The CGC must take care to ensure this change does not adversely alter the distribution of GST revenue.

Remove three-year averaging of stock disabilities

Queensland supports removing the three-year averaging of stock disabilities as this will simplify the investment assessments and increase transparency.

Three-year averaging of disabilities was introduced in the 2010 Review to address volatility concerns in the investment assessment. Queensland acknowledges that a CGC staff analysis found that three-year averaging:

- only reduces volatility slightly
- made the assessment more complex and therefore harder to understand.

As is the case for separately assessing investments in each category, Queensland supports moves to simplify assessments but stresses that this change should not significantly change GST revenue shares.

Category specific measure of growth

Queensland supports using category specific growth measures as this will better reflect 'what states do' compared with the current approach.

The CGC's current approach of using population changes to measure investment needs in each service category assumes that population changes impact all assessments equally. While greater populations will require more investment, the increase in needs is unlikely to be constant across categories. For example, an increase in school aged children in a state will increase the state's education needs, however it will not necessarily increase road infrastructure needs by the same magnitude. Therefore, this approach does not provide a precise measurement of needs.

The challenge in this approach will be identifying appropriate category specific growth measures for each category. The CGC will need to carefully consider any specific growth measures to ensure they conceptually reflect 'what states do' and can be reliably measured.

The CGC should also consider the methodology used to measure the capital stock factor. The capital stock factor is based on the category specific growth measures. For example, for urban transport, the capital stock factor is determined by adjusted urban population. If changes in urban population are used in conjunction with the current stock factor, this would measure the same factor twice. To avoid this, the CGC should consider whether appropriate alternate capital stock factors can be applied. For measures of growth that capture all disabilities, Queensland agrees with the CGC staff proposed approach to set the stock disability to one.

The use of the assessment year's stock disability for both opening and closing stocks

Queensland supports the proposal to use the assessment year's stock disability for both opening and closing stocks where there are additional stock requirements not captured by the growth indicator.

Queensland acknowledges that developing an investment assessment that accurately reflects 'what states do' is difficult. Queensland agrees the assessment should only account for disabilities that can be measured reliably. Queensland acknowledges this means some relevant indicators will be omitted.

Assess depreciation expenses with net investment expenses in an assessment of gross investment

Queensland supports the CGC staff proposal to assess depreciation expenses together with net investment expenses in an assessment of gross investment. There appears to be little material difference between a gross investment approach and a net investment approach based on the description provided in the draft assessment paper. Assessing depreciation together with the asset it relates to is conceptually sound, despite the fact depreciation is a recurrent cost.

The 12.5 per cent discount on the assessment of population dilution on net financial assets should be removed

Queensland notes the immateriality of the discount currently applied to the dilution of net financial assets or liabilities through population growth. Queensland agrees that this discount is not warranted and therefore supports the CGC staff proposal to remove the discount to simplify the assessment and improve its transparency.

4.2 Gambling

Queensland's position

- It is appropriate for Commonwealth Grants Commission (CGC) staff to investigate a disaggregated assessment of states' relative capacity to raise revenue through gambling.
- Household, Income and Labour Dynamics in Australia (HILDA) data may allow for such an assessment to be undertaken. Queensland is concerned that the HILDA data does not account for all the drivers of gambling such as overseas gambling revenue. Therefore, care would be needed to ensure no drivers of gambling revenue earning capacity are misrepresented or omitted.
- If the CGC cannot determine an alternative treatment to assessing gambling revenue that is robust and reliable, the equal per capita (EPC) assessment should be maintained.

Overview

Gambling revenue is currently assessed in the Other Revenue category on an EPC basis. Revenue received from gambling activities includes taxes for racing, lottery, gaming machines, casinos and sports betting. Historically, gambling revenue was differentially assessed, however concerns regarding the assessment's suitability caused the assessment to be discounted, which in turn meant it did not pass the materiality threshold.

The CGC has proposed investigating the feasibility of undertaking disaggregated assessment based on HILDA data and investigating an aggregated assessment based on broad indicators. A differential assessment is worth investigating given that, in 2015-16, total revenue from gambling activities across the Australian states totalled approximately $6 billion. However, any assessment undertaken needs to reflect the underlying drivers of gambling capacity and activity.

Investigating HILDA data for a disaggregated approach is appropriate, but HILDA data has limitations

Queensland agrees with the concept of a disaggregated gambling assessment. However, there are concerns that such an assessment could misrepresent or not fully consider all aspects of how gambling revenue is raised by states.

HILDA data contains comprehensive demographic breakdowns of propensities to gamble. Notably, it contains remoteness and SEIFA data, which are already broadly used by the CGC.

However, the underlying revenue base differs greatly between gambling revenue and other revenue lines. Gambling revenue is influenced by interstate and international populations, as well as the presence of online gambling. An assessment would need to account for factors such as tourism and key gambling hubs for it to fairly capture underlying differences between states. Using HILDA data alone would not adequately account for these drivers, as HILDA data looks at a state's own population, it does not account for visitors to the state.

The inclusion of HILDA data has the potential to eventually be worked into a disaggregated gambling assessment. However, as a sole data source, it cannot account for all key factors that remain outside of a state's control.

Given HILDA data cannot account for all key factors that drives states gambling revenue, and there is no other fit-for-purpose data source available, Queensland proposes that the current EPC assessment for gambling revenue be retained.

Investigating the suitability of using broad measures for an aggregated gambling assessment is appropriate

Queensland has no issues with an aggregated gambling assessment based on broad measures of gambling capacity. Queensland agrees with the CGC that developing a disaggregated assessment will be difficult for the 2020 Review, and that an aggregated approach may be more promising.

Using broad measures to assess gambling revenue could remove the complexity of a disaggregated assessment whilst also providing greater consideration of a state's capacity outside of its demographic composition. There is however a risk that this could be at the expense of some policy contamination as there are significant differences between states in their approach to raising revenue from gambling activity. For example, Western Australia does not allow electronic gaming machines outside of its single casino.

Some gambling capacity measures raised by the CGC, such as gross household disposable income (which was used prior to the assessment becoming EPC), still suffer to some extent from the issues raised previously, such as an inability to measure interstate and international influences, particularly in key gambling hubs.

Further information is needed regarding the broad measures that the CGC intend to integrate into an aggregated gambling assessment before a firm position on any proposed assessment approach can be provided.

Retaining an EPC assessment for gambling revenue is appropriate in the absence of a suitable alternative

While an EPC assessment is not ideal under a system of HFE, it leads to the most appropriate outcome in the absence of a justified assessment which accurately reflects 'what states do' and remains policy neutral.

4.3 Insurance Tax

Queensland's position

- Queensland has no issues with this category.
- An elasticity adjustment should be considered further.

Overview

The Insurance Tax category comprises revenue from duties on various forms of insurance, as well as insurance based fire and emergency services levies. These duties are imposed on insurance companies and passed on to consumers.

Assessment of Insurance tax applied in the 2015 Review remains appropriate

Queensland has no issues with the 2015 Review insurance tax assessment being retained. Queensland has identified no issues with the proposal to include workers' compensation duty in the category and assess it using the general insurance base. Queensland notes this approach is proposed for simplicity and should not be significantly different to the previous assessment method.

Elasticity adjustment should be considered

Queensland acknowledges that the CGC has engaged a consultant to advise on the appropriateness of applying elasticity adjustments. Elasticity may be a driver in terms of differences in insurance tax revenue capacities across states. Therefore, the application of an elasticity adjustment should be considered as part of the 2020 Review.

4.4 Payroll Tax

Queensland's position

- Queensland has no issues with this category and supports retaining the 2015 Review approach in the 2020 Review.
- An elasticity adjustment should be considered further.

Overview

Payroll tax is imposed on the wages and related benefits (remuneration) paid by firms operating in each state. This assessment category recognises that a state's payroll tax capacity is related to the total value of remuneration above an average tax-free threshold in the private sector and the public sector outside of general government.

Assessment of Payroll Tax applied in the 2015 Review remains appropriate

Queensland agrees the assessment of payroll tax reflects 'what states do', is simple, is based on reliable data, and produces a material result. Queensland agrees there are no issues in the payroll tax assessment for the 2020 Review and supports retaining the 2015 Review payroll tax assessment.

More information needed in terms of the proposed treatment of diminishing thresholds

Queensland acknowledges that some states have diminishing deduction thresholds, meaning the effective rate increases up to a certain payroll size, above which it is flat. For example, the Queensland deduction is reduced by $1 for every $4 by which the payroll exceeds $1.1 million, with no deduction for payrolls of $5.5 million or more. By contrast, New South Wales has a single payroll tax rate of 5.45 per cent for wages payments over $850,000.

The 2015 Review assessed payroll tax capacities by estimating the proportion of remuneration above a single average threshold. Queensland notes the Commonwealth Grants Commission (CGC) intends to account for diminishing thresholds in the 2020 Review if it is material to do so.

Queensland needs further information from CGC on how a model that accounts for diminishing thresholds would work before a firm position can be provided.

Elasticity adjustment should be considered

Queensland acknowledges that the CGC has engaged a consultant to advise on the appropriateness of applying elasticity adjustments. Elasticity may be a driver in terms of differences in payroll tax revenue capacities across states. Therefore, the application of an elasticity adjustment should be considered as part of the 2020 Review.

4.5 Land Revenue

Queensland's position

- Land values reported by State Revenue Offices (SRO) provide a robust and reliable measurement of states' relative capacity to raise land revenue. Policy decisions may influence land values but these impacts are not likely to be significant.
- An elasticity adjustment should be considered further.
- Given the robustness and reliability of SRO reported land values, the discount applied on the Land Revenue category should be removed.

Overview

The Land Revenue category comprises revenue from taxes on land ownership. The land based taxes included in the category are:

- land tax on residential investment, commercial and industrial land
- property based Fire and Emergency Services Levies
- metropolitan levies
- ACT's replacement revenue.

Land value is a robust and reliable measurement of land revenue capacity

Queensland agrees that SRO reported land values provide a robust and reliable measurement of states' relative capacity to raise land revenue. SRO reported land values reflect 'what states do', furthermore, the aggregation of this data across the state ensures that it reflects the average policy.

While policy decisions may influence land values, these differences are likely to be small and therefore should not significantly impact on aggregated land values. Queensland supports the Commonwealth Grants Commission (CGC) staff proposal to continue to use land values from SROs as the basis of the land revenue capacity measure.

Queensland has not identified any major issue with regards to the CGC staff proposals in assessing progressive rates of tax, jointly owned land, or foreign owner surcharges.

Queensland agrees with the CGC staff proposal to assess other land based taxes using land values for residential, commercial, and industrial properties.

Elasticity adjustment should be considered

Queensland acknowledges that the CGC has engaged a consultant to advise on the appropriateness of applying elasticity adjustments. Elasticity may be a driver in terms of differences in land revenue capacities across states. Therefore, the application of an elasticity adjustment should be considered as part of the 2020 Review.

Discount should be removed

Queensland opposes the CGC staff proposal to defer consideration on removing the discount on the category. Queensland improved its SRO reported land values for the 2017 Update, providing a robust and reliable measurement of states' relative capacity to raise land revenue and now accurately reflects 'what states do'. The current discount on the Land Revenue assessment should be reduced or eliminated entirely.

4.6 Stamp duty on conveyances

Queensland's position

- Queensland has no issues with this category.
- An elasticity adjustment should be considered further.

Overview

The Stamp Duty category comprises revenue from stamp duties imposed on the transfer of dutiable property and motor vehicles. The concept of property is broad, comprising both real and non-real property. The duty is based on the value of the property transferred.

No issues relating to this category

Queensland has no issues with the Commonwealth Grants Commission (CGC) staff proposals to:

- assess stamp duty on conveyances using the value of property transferred
- adjust the value of property transferred:
    - to remove values relating to non-real property, corporate reconstructions and sales of major state assets
    - for the wider scope of unit trusts and commercial real property in selected states
    - for the progressivity of transfer duty
- assess duty from transactions on non-real property, corporate reconstructions and sales of major state assets in the equal per capita (EPC) component.

Queensland agrees that the value of property transferred is a direct measure of the activity that is subject to state stamp duty taxes. Queensland has identified no issues with the proposed adjustments to the value of property transferred nor with the proposal to assess duty from transactions on non-real property, corporate reconstructions and sales of major state assets on an EPC basis.

Queensland supports the CGC engaging consultants to advise whether elasticity adjustments should be reinstated into the Stamp Duty category. Queensland will require information on the outcomes of any investigations before a firm position can be provided.

Queensland supports the proposal to move taxes on the transfer of vehicle ownership to the Motor Taxes category, as these are effectively a tax on motor vehicles.

4.7 Motor Taxes

Queensland's position

- Queensland has no issues with this category.
- Queensland supports the proposal to move the assessment of vehicle transfer duty to the Motor Taxes category.
- An elasticity adjustment should be considered further.

Overview

The Motor Taxes category comprises revenue from annual motor vehicle registration fees and associated charges. It includes fire and emergency services levies imposed on motor vehicles, traffic improvement and number plate fees, and revenues raised by the Commonwealth under its Federal Interstate Registration Scheme.

No issues were identified with this assessment category for the 2020 Review

Queensland has not identified any major issues with the proposal to retain the 2015 Review motor taxes capacity measures.

Queensland supports the proposal to move the assessment of vehicle transfer duty to the Motor Taxes category. It is noted that this will be a change in the presentation of the assessment only and will not affect the redistribution of GST revenue.

Other issues raised by the draft assessment paper

Queensland supports the Commonwealth Grants Commission (CGC) investigating the suitability of the current split between heavy and light vehicles. The data currently used by the CGC to estimate the split will be over a decade old by 2020 and should be revisited. However, if several states are still unable to provide data on the split of their vehicle registration revenue, the CGC must take care in adjusting state data to accommodate this issue.

Queensland supports the CGC investigating the application of progressive rates of vehicle transfer duty. However, for the CGC to conduct an accurate differential assessment of progressive taxation rates, reliable data must be obtained from all states.

Queensland acknowledges that the CGC has engaged a consultant to advise on the appropriateness of applying elasticity adjustments. Elasticity may be a driver in terms of differences in motor tax revenue capacities across states. Therefore, the application of an elasticity adjustment should be considered as part of the 2020 Review.

4.8 Other Revenue

Queensland's position

- Queensland has no issues with this category.

Overview

The Other Revenue category is a residual category, made up of revenues not assessed elsewhere. Revenues in this category are assessed equal per capita (EPC).

The Commonwealth Grants Commission (CGC) assesses revenues EPC when:

- it decides states have the same per capita capacity to raise revenue from that source
- either the method or the data are not sufficiently reliable to support an assessment
- a differential assessment would not be material.

For the 2020 Review CGC staff propose that the following revenues are assessed as EPC in the Other Revenue category:

- fees and fines
- user charges (except for those differentially assessed in expense categories)
- contributions by trading enterprises
- interest and dividend income
- other taxes and other income not elsewhere classified.

Queensland has no issues with the proposed approach

Queensland notes that CGC staff identified no major issues in this assessment and propose to continue to assess it EPC. Queensland has no issues with this approach.

5.0 Other Issues

5.1 A broader assessment approach

Queensland's position

- Queensland supports the conceptual case for simplifying assessments using a broader approach to assessing states' revenue capacity and expenditure. However, any simplified assessment must recognise states' service delivery challenges and revenue capacity.
- The Commonwealth Grants Commission's (CGC) should consult with states on the appropriateness of any proposed changes to its methodology.

Overview

The CGC assess the fiscal capacity of each state so that it can recommend a distribution of GST revenue to strengthen the capacity of those states with a weaker fiscal capacity.

The CGC assess each state's capacity to raise revenue, and each state's costs in providing services and associated investment. It also determines, on a per capita basis, an Australia-wide average of state capacity to raise revenue and provide services. States with high fiscal capacity—that is, which can raise more of the revenue they need, or whose service delivery costs are lower, than the average of all states—need less GST revenue to provide the average standard of services than states with lower fiscal capacity.

Under the CGC's preferred approach, judgments are not made about state government policies.

Previous assessment methods have been criticised for being too complex. For the 2020 Review, the CGC examined different approaches to assessing revenue capacity:

- a global approach—a single broader assessment of every revenue stream. CGC investigated assessing revenue using factors such as Gross State Product, Partial Gross State Product, Total factor income, Gross household disposable income, and Household final consumption expenditure.
- a macroeconomic (or macro) approach—a broader revenue assessment of each revenue stream. Under this approach revenue capacity would be calculated using the level of activity in each state, based on factors such as the value of mining production, land value, and number of vehicles.

The CGC also explored options to replace existing expense assessments with proxy assessments based on:

- a subset of the existing expense assessments and treating all others as equal per capita.
- regressions of state actual spending. Under this option, regression analysis was used to identify the subset of existing assessments that were the best explanatory variables for total assessed expenses, and the weights that would need to be apply to those assessments.
- predicting state needs based on a regression analysis of actual expenses and other state characteristics.
- national government expenses, using National Accounts data published by the Australian Bureau of Statistics.
- past expense assessments as a proxy for future expense assessments.

Any simplified assessment must recognise states' service delivery challenges and revenue capacity

Queensland supports the conceptual case for simplifying assessments using a broader approach to assessing states' needs. However, Queensland acknowledges the challenges associated with implementing a broader approach for revenue capacities based on macro or global indicators, as well as the challenges of adopting a high-level assessment of expenses using proxy indicators. Any changes towards a broader assessment approach need to be undertaken with caution to ensure the simplified approach does not adversely impact the underlying principles of horizontal fiscal equalisation. The CGC should consult with states on the appropriateness of any proposed changes to its methodology.

5.2 Draft 2020 review quality assurance strategic plan

Queensland's position

- The Quality Assurance (QA) strategic plan is appropriate in ensuring reliable and accurate assessments of state fiscal capacities are made.

Overview

Commonwealth Grants Commission staff have developed a QA strategic plan for the 2020 Review. The aim of the QA strategic plan is to ensure there are strategies in place to ensure reliable and accurate assessments of state fiscal capacities are made.

Plan appears to satisfy the requirements of the terms of reference

The strategies outlined appear to be appropriate and effective in terms of ensuring the assessments:

- are conceptually sound,
- are based on the best evidence available, and
- use the best quality data and apply this data appropriately in assessment calculations.

The engagement of external auditors is also appropriate to ensure assessments made are impartial and accurate.

Queensland has identified no issues with the QA action plan.

Attachment 1: Queensland's response to CGC staff recommendations

Commonwealth Grants Commission (CGC) staff have proposed several recommendations to be made to the CGC. This attachment lists the proposed recommendations made by CGC staff and provides Queensland's position on each of these.

0 A BROADER ASSESSMENT APPROACH

Queensland supports the conceptual case for simplifying assessments using a broader approach to assessing States' revenue capacity and expenditure. However, Queensland acknowledges the practical challenges associated with implementing a broader approach given the CGC's objectives.

1 OVERVIEW OF THE DRAFT ASSESSMENT PAPERS

No specific recommendations.

2 PAYROLL TAX

2.1 Retain the 2015 Review payroll tax assessment.

Queensland supports this recommendation.

3 LAND REVENUE

3.1 Include all land based taxes in the Land revenue category, except those taxes deemed to be user charges.

Queensland supports this recommendation.

3.2 Treat planning and development levies and Victoria's Growth areas infrastructure contribution as user charges.

Queensland supports this recommendation.

3.3 Include ACT replacement revenue in the category, provided the ACT can provide an estimate of the revenue.

Queensland supports this recommendation.

3.4 Include property based Fire and Emergency Services Levies (FESLs) in the Land revenue category, insurance based FESLs in the Insurance tax category and motor vehicle based FESLs in the Motor taxes category.

Queensland supports this recommendation.

3.5 Continue to use land values as the basis of the Land revenue capacity measure.

Queensland supports this recommendation.

3.6 Assess the Land tax component using adjusted land values.

Queensland supports this recommendation.

3.7 Adjust land values for

- **the scope of taxation, excluding land values relating to principal places of residence and land used for primary production, general government and charitable purposes**
- **State policies on aggregation, including the treatment of jointly owned land, if it can be done reliably**
- **the progressivity of Land tax.**

Queensland supports this recommendation.

3.8 Not make a separate assessment of foreign owner surcharges, but allow the surcharges to affect the assessment through increased effective rates of tax.

Queensland supports this recommendation.

3.9 Assess other land based taxes using land values for residential, commercial and industrial properties.

Queensland supports this recommendation.

3.10 Seek views from the Officer Working Party on which is the most appropriate source of land value data and what adjustments may be required to make States' measured tax bases comparable.

Queensland's position is that State Revenue Office (SRO) data be used as other sources are inappropriate.

3.11 Defer consideration of an elasticity adjustment until it has considered the consultant's report on elasticities.

Queensland acknowledges that the CGC is awaiting the consultant's report on the matter. Queensland supports an elasticity adjustment to be included in the assessments for the 2020 Review.

3.12 Defer consideration of a discount until the assessment method is settled.

Queensland opposes this recommendation. The SRO's reported land values provide a robust and reliable measurement of states relative capacity to raise land revenue. Therefore, the CGC should discontinue the discount.

4 STAMP DUTY ON CONVEYANCES

4.1 Include in the category revenue from duties on the transfer of real and non-real property, including foreign owner surcharges.

Queensland supports this recommendation.

4.2 Include in the category an amount equal to the concessional duty provided to first home owners.

Queensland supports this recommendation.

4.3 Assess stamp duty on conveyances using the value of property transferred.

Queensland supports this recommendation.

4.4 Adjust the value of property transferred:

- **to remove values relating to non-real property, corporate reconstructions and sales of major State assets**
- **for the wider scope of unit trusts and commercial real property in selected States for the progressivity of transfer duty.**

Queensland supports this recommendation.

4.5 Assess duty from transactions on non-real property, corporate reconstructions and sales of major State assets in the EPC component.

Queensland supports this recommendation.

4.6 Defer consideration of an elasticity adjustment until it has considered the consultant's report on elasticities.

Queensland acknowledges that the CGC is awaiting the consultant's report on the matter. Queensland supports an elasticity adjustment to be included in the assessments for the 2020 Review.

5 INSURANCE TAX

5.1 Retain the 2015 Review insurance tax assessment, but include workers' compensation duty in the category and assess it using the general insurance base.

Queensland supports this recommendation.

6 MOTOR TAXES

6.1 Retain the 2015 Review Motor taxes capacity measures.

Queensland supports this recommendation.

6.2 Present the assessment of stamp duty on motor vehicles transfers in the Motor taxes category.

Queensland supports this recommendation.

7 GAMBLING TAXES

7.1 Continue to investigate a disaggregated gambling assessment based on Household, Income and Labour Dynamics in Australia (HILDA) data.

HILDA does not capture all the drivers of gambling such as overseas gambling revenue. Therefore, care is needed in any investigations undertaken, to ensure no drivers of gambling revenue are misrepresented or omitted.

7.2 Continue to investigate an aggregated assessment based on broad measures of gambling capacity.

Queensland supports this recommendation.

7.3 Pending the outcome of these investigations, assess gambling taxes EPC.

Queensland supports this recommendation.

8 MINING REVENUE

8.1 The Mining revenue category continue to comprise:

- **State royalty revenue**
- **grants in lieu of royalties.**

Queensland supports this recommendation.

8.2 Use value of production as the capacity measure for mining revenue.

Queensland supports this recommendation.

8.3 Collect value of production data from States on a free on board basis.

Queensland is concerned states may have difficulties providing a comparable data set of free on board values for all commodities. Queensland will require further information on how this will be applied in practice before a firm position can be provided.

8.4 Continue to assess mining revenue capacity using a mineral by mineral approach.

Queensland opposes this recommendation. An aggregated approach strikes a better balance between 'what states do' and policy neutrality.

8.5 If a dominant State makes a discretionary change to its royalty rates, the CGC:

- **assess a portion of the revenue increase EPC**
- **use the formula (set out in Attachment A to the staff assessment paper) to calculate that proportion.**

Queensland opposes the CGC's recommendation to assess a portion of the revenue from a dominant state EPC. The dominant State treatment appears to be an unscientific methodology that is designed to benefit one State.

8.6 Not make adjustments for differences in State:

- **development policies**
- **compliance efforts.**

Queensland supports this recommendation.

8.7 Assess revenue from banned minerals equal per capita, from the commencement of the 2020 Review.

Queensland supports this recommendation. Assessing revenue from mining activity banned by most states on an equal per capita basis is consistent with the supporting principle of ‘what states do’.

8.8 Apply this treatment to coal seam gas and uranium royalties.

Queensland supports this recommendation. There is no fit for purpose data for the CGC to estimate the value of production for states that have banned coal seam gas and uranium exploration.

8.9 Present the banned minerals assessment in the Mining revenue category.

Queensland supports this recommendation.

8.10 Defer consideration of an elasticity adjustment until it has considered the consultant’s report on elasticities.

Queensland acknowledges that the CGC are is awaiting the consultant’s report on the matter. Queensland supports an elasticity adjustment to be included in the assessments for the 2020 Review.

8.11 Defer consideration of a discount until the assessment method is settled.

Queensland opposes this recommendation. The conflict between policy neutrality and ‘what states do’ in the mining assessment means the assessment is unable to produce a satisfactory horizontal fiscal equalisation outcome. A discount to the current assessment is warranted to compensate for any deficiencies from the assessment methodology.

9 OTHER REVENUE

Queensland supports the proposed approach to assess Other Revenue.

10 SCHOOL EDUCATION

10.1 Use an appropriate regression model reflecting State funding models once further developed following consultation between staff and the states.

Queensland opposes the use of either alternate regression model presented by CGC staff to date. Queensland supports the current model as it reflects its current funding model, has a strong conceptual case, and aligns with the SRS.

10.2 Net user charges off the State funded government school assessment.

Queensland requires further information on how netting user charges would influence other cost loadings in the assessment and consider whether this will result in a robust model that accurately reflects ‘what states do’.

10.3 Model student cost weights with a regression that predicts State government recurrent funding.

As outlined above, Queensland opposes the use of either alternate regression model presented by CGC staff to date. Queensland requires further information on how a regression would be undertaken such that it addresses the concerned raised in this paper before a firm position can be provided on this recommendation.

10.4 Use the Commonwealth's SRS to assess need for Commonwealth funded government schools.

Queensland supports this recommendation.

10.5 Assess Commonwealth funding to non-government schools in the same way as for other Commonwealth payments that do not affect State shares of GST revenue.

Queensland supports this recommendation in the interest of simplifying the assessment.

10.6 Continue the 2015 Review practice of using ABS data using splits of geographic distribution based on ACARA data.

Queensland supports this recommendation.

10.7 Not incorporate students with a disability into the Schools education assessment unless it is clear these data are comparable across States.

Queensland opposes the CGC staff proposal to delay the inclusion of data on students with disability into the education assessment. Assisting students with a disability is a key component of Queensland's education funding model and aligns with the Australian Government's SRS. Consultation with the Queensland Department of Education has indicated that data has progressed to a stage where interjurisdictional comparisons may be possible.

10.8 Use the actual numbers of government and non-government students in each State.

Queensland supports this recommendation.

10.9 Include transport of school children expenses with transport expenses and assess this using the same the disabilities as those for the urban transport assessment.

Queensland opposes this recommendation on the basis that applying urban transport disabilities to school children expenses may ignore additional costs of providing services to students in remote areas, and not appropriately consider varying enrolment populations between states.

11 POST-SECONDARY EDUCATION

11.1 Retain the Indigenous cost loading but update the loading using State provided data reflecting current spending allocations.

Queensland supports this recommendation.

11.2 Adopt the new category specific regional cost loadings and use them in the assessment on an undiscounted basis.

Queensland supports this recommendation.

11.3 Investigate if a qualification level loading should be included in the assessment to recognise that different level courses attract different subsidies.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

11.4 Not include a State course mix disability because States are unlikely to be able to provide the necessary cost data and there is potential for State subsidy policies to influence the course mix.

Queensland supports this recommendation.

11.5 Not investigate a disability based on the sector of training providers because most States provide the same subsidy to all providers regardless of sector, and the mix of public and private providers is highly policy influenced.

Queensland supports this recommendation.

11.6 Make a data adjustment to ensure only fee-for-service revenue is netted of expenses, if it is material.

Queensland supports this recommendation.

12 HEALTH

12.1 Consider retaining the direct approach to assess all components of health expenses in the 2020 Review rather than reverting to a subtraction approach because the direct approach utilises reliable data to directly assess State health spending and focuses on 'what states do' while appropriately recognising the influence of the non-State sector.

Queensland supports this recommendation.

12.2 Not scale the outcomes of the direct assessment method based on a very broad interpretation of what constitutes State-like services.

Queensland supports this recommendation.

12.3 Continue to use IHPA's NWAU data for the SDC assessments of admitted and ED services because the data provide a reliable basis for measuring the material factors which influence State spending on these services.

Queensland supports this recommendation.

12.4 Use IHPA's NAP NWAU data for the SDC assessment of NAP expenses instead of admitted patient separations because the data should be sufficiently reliable by the 2020 Review and it will provide a better measure of the material factors which influence State spending on NAP services.

Queensland supports this recommendation.

12.5 Investigate whether sufficiently comparable and reliable administrative data on community health services are available from States to build a national SDC profile for community health services.

Queensland supports this recommendation.

12.6 In the absence of suitable data, staff will consider whether ED triage category 4 and 5 remain the best proxy for measuring the SDC disability for community health services.

Queensland supports this recommendation.

12.7 Note the changes to IHPA's adjustments for 2018-19 NWAU data, which will affect the assessment for the first time in the 2020 Review.

Queensland notes changes.

12.8 Ensure all hospital remoteness and SDS costs for small rural block funded hospitals are recognised in the SDC assessments for hospital services (admitted patients, ED and NAP).

Queensland supports this recommendation.

12.9 Take steps to ensure that the proxy indicator used in the SDC assessment for community health adequately recognises remoteness and SDS costs.

Queensland supports this recommendation.

12.10 Re-test the materiality of splitting remote and very remote areas in the SDC assessments.

Queensland supports this recommendation.

12.11 Re-test the materiality of splitting the older age group (75+ years) to have a 75-84 years age group and an 85+ age group.

Queensland supports this recommendation.

12.12 Continue to recognise the influence of the non-State sector on admitted patient expenses using a direct assessment approach.

Queensland supports this recommendation.

12.13 Confirm the level of substitutability and data used to calculate the non-State sector adjustment after staff analysis has been completed and States have been consulted.

Queensland supports this recommendation.

12.14 Investigate if there are any new studies examining the relationship between GP and State provided ED services to support or otherwise indicate a different level of substitutability for ED services.

Queensland supports this recommendation.

12.15 Investigate to what extent private ED services are substitutable with State ED services.

Queensland supports this recommendation.

12.16 Confirm the current level of substitutability for NAP using the same approach used in the 2015 Review.

Queensland supports this recommendation.

12.17 Investigate if service bundling or non-State allied health services have any implications for State provided NAP services.

Queensland supports this recommendation.

12.18 Re-estimate the substitutability level for community health using a bottom-up approach which examines each major service area on a case by case basis.

Queensland supports this recommendation.

12.19 Investigate if bulk-billed GP benefits data, which is currently being used to estimate the availability of non-State community health services, is the best available indicator for this purpose.

Queensland supports this recommendation.

12.20 Note that the current arrangements ensure that States are reimbursed for the cost of providing hospital services to residents of another State.

Queensland supports this recommendation.

12.21 Review the approach to the cross-border assessment for community and other health services as outlined in the Staff Draft Assessment Paper CGC 2018-01/25-S.

Queensland supports this recommendation.

12.22 Retain the current method for assessing non-hospital patient transport expenses but collect new data to benchmark patient transport expenses and re-calculate the remote patient cost loading.

Queensland supports this recommendation.

12.23 Consider whether expenses for pharmaceuticals, medical aids and appliances and health administration not elsewhere classified (n.e.c.) should be included in the community and other health component or admitted patients.

Queensland supports this recommendation.

12.24 Consider options for deriving annual estimates of ED and NAP expenses.

Queensland supports this recommendation.

12.25 Continue to offset all user charges against expenses to maintain simplicity and because:

- **fully compensable patients have no effect on State fiscal capacities and it is appropriate to remove these expenses from the assessment**
- **only the residual cost of private patients in public hospitals affect State fiscal capacities and the NWAU data used in the SDC assessment recognises that private patients in public hospitals are less costly.**

Queensland supports this recommendation.

12.26 Consider assessing all hospital services in a single component if IHPA's NWAU data for NAP services is considered sufficiently reliable by the time of the 2020 Review.

Queensland supports this recommendation.

12.27 Not include a cost adjustment for culturally and linguistically diverse (CALD) patients because any additional costs for CALD patients compared with non-CALD patients appear to be small.

Queensland supports this recommendation.

13 WELFARE

13.1 Retain the current assessment methodology for family and child services but stay in contact with the AIHW on developments concerning their unit record database, including whether data might become available for New South Wales and a possible CALD and/or disability measure.

Queensland supports this recommendation.

13.2 Merge States' residual aged care expenses with other general welfare expenses and assess them using a general low SES measure.

Queensland supports this recommendation.

13.3 Assess NDIS expenses APC at full implementation in the 2020 Review, subject to decisions on this issue taken in the 2019 Update.

Queensland supports this recommendation.

13.4 Re-allocate non NDIS expenses to the other general welfare component and assess them using the same measure of low SES as that used for other general welfare expenses after the full implementation of NDIS, subject to decisions on this issue taken in the 2019 Update.

Queensland supports this recommendation.

13.5 Retain the current assessment methodology for concessions.

Queensland supports this recommendation.

13.6 Retain homelessness related expenses within the other general welfare component of the Welfare category.

Queensland supports this recommendation.

13.7 If the ABS updates SEIFI, use it to measure needs for other general welfare expenses. If an updated SEIFI is not available for the 2020 Review, use the relative proportions of State populations in the bottom quintile of the 2016 Census individual income.

Queensland supports this recommendation.

13.8 Assess revenues from user charges on an EPC basis in the Other revenue category.

Queensland supports this recommendation.

14 HOUSING

14.1 Agree to develop an approach which scales the more detailed Census data to accord, to the extent possible and appropriate, with available AIHW data for each State on households in State housing (public housing plus SOMIH) and community housing (mainstream community housing plus ICHOs).

Queensland supports this recommendation.

14.2 Agree to staff undertaking further investigations into the possible scaling of Census rent data to accord with available AIHW data.

Queensland supports this recommendation.

14.3 *States are welcome to develop a case for the assessment of the impact of land prices on the costs of providing housing services.*

Queensland supports the proposal not to include land values into the assessment.

14.4 Not pursue a differential assessment of housing related land costs because recurrent expenses would not be affected by land prices and net investment in land is too small for an assessment to be material.

Queensland supports this recommendation.

14.5 Not pursue a separate assessment of affordable housing because State expenses are likely to be small.

Queensland supports this recommendation.

14.6 Retain the EPC assessment of FHOGs and stamp duty concessions expenses.

Queensland supports this recommendation.

14.7 Agree to update the Indigenous cost weight and the location factor using the latest available data.

Queensland supports this recommendation.

15 SERVICES TO COMMUNITIES

15.1 Split the utilities component into electricity subsidies and water subsidies, recognising that average subsidies for these services are likely to be different.

Queensland supports this recommendation.

15.2 Update the split between electricity and water subsidies annually using data already available from the States.

Queensland supports this recommendation.

15.3 Determine at what point full cost recovery for electricity services is not feasible.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.4 Differentially assess electricity subsidies which are the result of unavoidably high costs recognising that subsidies vary by community size and remoteness area.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.5 Not differentially assess electricity subsidies when the decision to not fully cost recover is due to State policy choice.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.6 Determine at what point full cost recovery for water services is feasible.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.7 Not differentially assess water subsidies when the decision to not fully cost recover is due to State policy.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.8 Differentially assess water subsidies which are the result of unavoidably high costs.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.9 Expand the scope of Indigenous community development expenses to include general revenue grants to local councils with a predominantly Indigenous population because the driver of these expenses is communities with a significant Indigenous population.

Queensland supports this recommendation.

15.10 Collect data from the States for Indigenous community development expenses to evaluate the quality of GFS data and to decide the best approach for estimating annual component expenses.

Queensland supports this recommendation.

15.11 Assess Indigenous community development expenses in a separate component of the Services to communities category to improve transparency and simplify the assessment.

Queensland supports this recommendation.

15.12 Continue to use the Indigenous population living in these communities as the disability for the Indigenous community development, and applying wage costs and regional costs disabilities.

Queensland supports this recommendation.

15.13 Continue to define discrete Indigenous communities as SA1s with populations that are more than 50% Indigenous.

Queensland supports this recommendation.

15.14 Continue to assess community amenities expenses EPC.

Queensland supports this recommendation.

15.15 Assess other community development expenses EPC because these services apply to all communities including discrete Indigenous communities.

Queensland supports this recommendation.

15.16 Continue to apply wage costs and regional costs disabilities to other community development and community amenities expenses.

Queensland supports this recommendation.

15.17 Include other community development and amenities expenses in the Other expenses category because this is where most other State expenses which are assessed on the basis of population are classified.

Queensland supports this recommendation.

15.18 Continue to assess environmental protection expenses EPC because it is not practical to disaggregate expenses or possible to identify a single broad indicator for assessing spending on this function.

Queensland supports this recommendation.

15.19 Continue to apply a wage costs disability.

Queensland supports this recommendation.

15.20 Consider applying the regional costs disability to some or all environmental protection expenses, especially in light of changes to the scope of these expenses, which now include national parks and wildlife expenses.

Queensland supports this recommendation.

15.21 Include environmental protection expenses in the service expenses component of the Other expenses category because this is where most other State expenses which are assessed on the basis of population are classified.

Queensland supports this recommendation, noting that such a move should not impact on the distribution of GST revenue.

15.22 Include all user charges for the activities covered by the existing Services to communities category in the Other revenue category and assess them on an EPC basis.

Queensland supports this recommendation, noting that such a move should not impact on the distribution of GST revenue.

15.23 Discontinue the regional cost weight and SDS factor for electricity subsidies, as the influence of remoteness and SDS will already be captured under the new assessment.

Queensland supports this recommendation.

15.24 Ensure that regional costs and SDS costs are captured in the water subsidies assessment.

Queensland supports this recommendation.

15.25 Retain the 2015 Review assessments of wage costs and regional costs for the remaining components, and consider applying a regional costs disability to environmental protection expenses.

Queensland supports this recommendation.

15.26 Not to assess the effect of the non-State sector on the level of electricity, water and wastewater subsidies.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

15.27 Not to assess the effect of the non-State sector on the provision of environmental protection services because it is impractical to develop an assessment.

Queensland supports this recommendation.

16 JUSTICE

16.1 Further develop a model incorporating socio-demographic drivers of offences and geographic based model of cost per offence.

Queensland opposes the CGC staff's proposed model which is based solely on cost per offence for a population cohort. Offences and the cost per offence do not fully represent the need states have for policing. Community policing should be differentially assessed because population cohorts and geographic constraints can necessitate different levels of police resourcing and is 'what states do'.

16.2 Divide legal service expenses into those associated with criminal matters and all other legal services.

Queensland supports this recommendation.

16.3 Assess criminal legal matters using use rates based upon State data on the Indigenous status, SES and age characteristics of criminal court defendants.

Queensland supports this recommendation.

16.4 Not apply any cost-weights to population groups.

Queensland supports this recommendation.

16.5 Retain the 2015 Review method used to assess Prisons.

Queensland supports this recommendation.

16.6 Apply the wage costs assessment in the Justice category.

Queensland supports this recommendation.

16.7 Retain the 2015 Review method for regional costs and service delivery scale.

Queensland supports this recommendation.

16.8 Assess the influence of the use of AFP officers by the ACT on police expenses.

Queensland supports this recommendation.

17 ROADS

17.1 Consider whether it should adopt a new approach to measuring State road length in a way that more closely reflects the actual length of roads that States manage and, if so, to:

- **use State actual road networks adjusted to ensure the inclusion of roads commonly classified as State roads and the exclusion of roads commonly classified as local roads to reflect average policy**
- **as a fall-back, retain the mapping algorithm approach with changes to incorporate all connections between urban centres, connections to smaller population centres and connections to certain areas of significance.**

Queensland stresses that significantly more modelling and analysis should be provided to states before Queensland agrees to any methodology changes.

17.2 Provide a draft data request to States by early 2019 to see whether States can provide road length information based on the definitions and formats set out in the Austroads Standard.

Queensland supports this recommendation.

17.3 Retain the definition of urban areas as UCLs of more than 40 000 people.

Queensland supports this recommendation.

17.4 Use State actual road networks adjusted, to the extent possible, to ensure the inclusion of roads commonly classified as State roads and the exclusion of roads commonly classified as local roads to reflect average policy.

Queensland stresses that significantly more modelling and analysis needs to be provided before Queensland agrees to any methodology changes.

17.5 As a fall-back, continue to use urban population as a proxy measure of urban road length needs.

Queensland supports this recommendation.

17.6 Ensure that the local roads component includes only expenses relating to maintenance of local roads in areas of States where there is no local government (unincorporated areas) or where there is insufficient population for the local government to support road maintenance.

Queensland needs further information regarding the treatment of local road expenses should this assessment become immaterial.

17.7 Update the estimates of local road length using actual road length in unincorporated areas and sparsely populated areas.

Queensland needs further information regarding the treatment of local road expenses should this assessment become immaterial.

17.8 Retain the current methodology for calculating urban and rural traffic volume.

Queensland supports this recommendation.

17.9 Treat light commercial vehicles as passenger vehicles because they do not fit the definition of heavy vehicles.

Queensland supports this recommendation.

17.10 Combine rigid and other trucks, and buses into another heavy vehicle class.

Queensland supports this recommendation.

17.11 Not pursue the issue raised by the ACT.

Queensland supports this recommendation.

17.12 Agree to staff considering options for a bridge and tunnel factor based on State spatial data.

There is evidence that expenses for bridges and tunnels are influenced by many factors and should be differentially assessed. The CGC will need to provide states with information regarding how disabilities would be assessed.

17.13 If no satisfactory options are found, reallocate bridge and tunnel expenses and investment to the relevant urban and rural road components and apply the disabilities for those components.

Queensland supports this recommendation.

17.14 Remove the other services component from the roads category and reallocate other services expenses to the other components of the Roads category on a proportional basis and apply to them the component disabilities.

Queensland supports this recommendation.

17.15 Defer a decision on the treatment of Commonwealth payments for investment on national network road (NNR) and rail projects until State comments on the issue have been received and examined.

An exclusion of NNR Commonwealth payments should be applied to account for the limited influence states have over these payments.

17.16 Not pursue the development of a physical environment assessment for road maintenance expenses.

Queensland opposes this recommendation. Road maintenance costs are increasing due to environmental factors. However, Queensland acknowledges this is difficult to incorporate across all States.

17.17 Continue to apply the wage costs factor to all components of the Roads category.

Queensland supports this recommendation.

17.18 Continue to apply the regional costs factor to the rural roads component.

Queensland supports this recommendation.

17.19 Continue to assess roads user charges on an EPC basis in the Other revenue category.

Queensland supports this recommendation.

18 TRANSPORT

18.1 Retain the current general approach to the assessment of recurrent and infrastructure urban transport expenditure because the conceptual case that city population is a major driver of net expenses and assets for public transport systems is strong and supported by data.

Queensland opposes this recommendation. The CGC model does not reflect how states plan or manage their urban transport requirements. The current approach should not be retained in the 2020 Review as it does not reflect 'what states do'.

18.2 Provide the report on stage 2 of the consultancy to States for comments. After receiving those comments, staff will develop assessment proposals for net expenses and investment for the CGC.

Queensland supports this recommendation.

18.3 Retain the 2015 Review definition of urban areas: ABS UCLs contained within SUAs.

Queensland opposes this recommendation. The statistical dataset of SUAs should not be used because:

- the current SUA boundary used to define urban areas causes inconsistent treatment of simular UCLs.
- it does not capture the service delivery requirements that states face.

18.4 Include all SUAs in the assessment of urban transport because most of them have public transport services.

As outlined in the section above, Queensland opposes SUAs being used as the measure of urban centres.

Decide whether or not some satellite cities should be amalgamated with their principal city based on the results of the analysis using the two quantitative criteria proposed by the consultant.

Queensland supports this recommendation. Satellite cities should be amalgamated with their base city to accurately reflect states' true transport task, and mitigate issues of the SUA dataset used to frame urban centres.

18.5 Retain the 2015 Review assessment of non-urban transport services, which is based on State shares of population outside capital cities.

The CGC should conduct further research into other factors influencing transport expenses in non-urban transport as these factors would likely be also prevalent in urban transport.

19 SERVICES TO INDUSTRY

19.1 Continue to assess business development expenses EPC.

Queensland supports this recommendation.

19.2 Continue to apply the wage costs disability to State business development expenses.

Queensland supports this recommendation.

19.3 Continue to recognise that there are minimum fixed costs associated with the normal range of business development activities States perform.

Queensland supports this recommendation.

19.4 Use State data on business development expenses and GFS data to estimate business development and regulation expenses for agriculture and other industries.

Queensland supports this recommendation.

19.5 Continue to assess agriculture and other industries regulation separately because the way States regulate these sectors is different, but only if a separate agriculture assessment remains material.

Queensland supports this recommendation.

19.6 Send draft data requests for agriculture and other industries in May 2018.

Queensland supports this recommendation.

19.7 Send final data requests to the States in September 2018 to collect the final data for three financial years from 2015-16 to 2017-18.

Queensland supports this recommendation.

19.8 Retain the business development and regulation weights obtained from data for 2015-16 to 2017-18 for the period of the 2020 Review.

Queensland supports this recommendation.

19.9 Continue to differentially assess industry regulation expenses because the size of the regulation task for industry is related to the size of the sector.

Queensland supports this recommendation.

19.10 Use information from State line agencies to inform the decision on the relevant drivers of State spending on industry regulation.

Queensland supports this recommendation.

19.11 Not use a regression approach to determine drivers and associated weights due to the nature of the available data and initial regression results lacking statistical significance.

Queensland supports this recommendation.

19.12 Continue to assess planning and regulation expenses for major infrastructure projects in the Services to industry category using State shares of private non-dwelling construction expenditure as the disability.

Queensland supports this recommendation.

19.13 Collect data from States to update the current spending estimate.

Queensland supports this recommendation.

19.14 Not remove R&D expenses identified in the new COFOG-A classification from the relevant functions on simplicity grounds, unless it is material.

Queensland supports this recommendation.

19.15 Deduct all user charges from expenses because most relate to regulation activities and the same disabilities apply to expenses and revenue.

Queensland supports this recommendation.

19.16 Collect data on State agricultural levies to confirm they are not material.

Queensland supports this recommendation.

19.17 Retain the administrative scale assessment for the category but re-estimate the costs using the approach outlined in Staff Draft Assessment Paper CGC 2018-01/25-S, Administrative scale.

Queensland supports this recommendation.

20 OTHER EXPENSES

20.1 Continue to assess natural disaster relief expenses on an APC basis.

Queensland supports this recommendation. This assessment approach has been subject to comprehensive scrutiny and analysis and should now be considered robust and reliable.

20.2 Not make an assessment for natural disaster mitigation expenses, due to the difficulty in obtaining expense data and identifying a reliable driver.

Queensland supports this recommendation.

20.3 Continue to make adjustments to the adjusted budget to ensure:

- **natural disaster relief expenses under the NDRRA framework are only assessed once**
- **net natural disaster relief expenses funded from local government revenue are not included in the assessment because they do not affect a State's fiscal capacity**
- **Commonwealth NDRRA assistance payments through States to local government (for example, for roads) are not included in category expenses.**

Queensland supports this recommendation.

20.4 Cease assessing the capital grants to local governments for community amenities component because the driver of this spending is unclear.

Queensland supports this recommendation.

20.5 Not assess national parks and wildlife services, due to uncertainties surrounding the policy influences and difficulty in obtaining reliable data to measure cost influences and expenses.

Queensland supports this recommendation.

20.6 Not assess a cross-border disability for library, sports grounds and other cultural and recreational services provided to New South Wales residents unless the ACT is able to provide current data to substantiate an assessment.

Queensland supports this recommendation.

20.7 Include most State expenses which are assessed EPC in this category.

Queensland supports this recommendation, noting that such a move should not impact on the distribution of GST revenue.

20.8 Staff seek State views on whether administrative scale expenses should all be included in a component of the Other expenses category or separately identified in each expense category.

Queensland supports this recommendation, noting that such a move should not impact on the distribution of GST revenue.

20.9 Continue to apply location disabilities to the same expenses as the 2015 Review.

Queensland supports this recommendation.

21 PHYSICAL AND FINANCIAL ASSETS (INVESTMENT)

21.1 Separately assess investment in all category and component service areas.

Queensland supports this recommendation.

21.2 Remove three-year averaging of stock disabilities

Queensland supports this recommendation.

21.3 Capture the change in circumstances through the use of category specific growth measures, where methods can be developed and reliable data are available. If no alternative measure is available, use total population growth as a proxy

- **where population growth is used, specify change in population levels, rather than births, deaths and net migration, as the measure of population growth.**

Queensland supports this recommendation.

21.4 Where there are considered to be additional stock requirements not captured by the growth indicator, use the assessment year's stock disability for both opening and closing stocks.

Queensland supports this recommendation.

21.5 Not consider differential assessment of investment in land for any category other than roads.

Queensland supports this recommendation.

21.6 Assess the suitability of recurrent disabilities in assessing capital stock needs when assessments are further progressed.

Queensland supports this recommendation.

21.7 Consider whether to assess depreciation expenses with net investment expenses in an assessment of gross investment.

Queensland supports this recommendation.

21.8 Continue to assess the impact of population dilution on net financial assets, remove the 12.5% discount and not recognise any other disabilities.

Queensland supports this recommendation.

21.9 Retain the 2015 Review method of assessing capital costs through a combination of construction cost indices and recurrent cost factors.

Queensland supports this recommendation.

21.10 Determine the best presentation framework based on staff and State recommendations.

Queensland supports this recommendation.

22 WAGE COSTS

22.1 Retain its approach to estimating differences in wage costs using the 2016 Update econometric model, updated with new CoES data each year.

Queensland is concerned that the current model does not fully capture the differences in interstate wages accurately. Further investigations by the CGC are required to fully understand what drives the differences between states wage costs.

22.2 Update the wage proportions of service delivery expenses based on GFS expense data in the review, but not update these proportions in subsequent updates.

Queensland supports this recommendation.

23 GEOGRAPHY USED BY THE COMMISSION (REGIONAL COST)

23.1 Continue using ABS remoteness areas geography across all categories.

Queensland supports this recommendation.

23.2 Develop a regional costs assessment using data from schools, police, post-secondary education and hospitals.

Queensland supports this recommendation.

23.3 Test whether there are significant differences in the cost gradients between these services and, if not, use a single measure for all categories.

Queensland supports this recommendation.

23.4 Send a data request to States for current data on State spending by region by service.

Queensland supports this recommendation.

23.5 Continue applying a regional cost disability to services where a conceptual case has been identified.

Queensland supports this recommendation.

23.6 Look into the merits of IRSEO+ as a better measure of Indigenous SES once this becomes available.

Queensland supports this recommendation.

23.7 Continue to use SEIFA and NISEIFA for the total and non-Indigenous population, respectively.

Queensland supports this recommendation.

23.8 Maintain 2015 methods for Service delivery scale.

Queensland supports this recommendation.

23.9 Maintain 2015 methods to measure Interstate non-wage costs.

Queensland supports this recommendation.

24 ADMINISTRATIVE SCALE

24.1 Retain the 2015 Review definition of administrative scale.

Queensland acknowledges the concept of Administrative Scale expenses but maintains its position that work is needed to ensure a robust quantification of these expenses is achieved

24.2 To the extent possible, re-estimate administrative scale expenses for each expenses category using the bottom-up and top-down approaches.

Queensland will need to carefully consider the outcomes of any re-estimation before Queensland can form a firm position on this issue.

24.3 Continue to adjust the ACT's scale expenses to reflect its minimal spending needs for Indigenous communities, non-urban transport, primary industries, and mining and mineral resources other than fuels.

Queensland supports this recommendation.

24.4 Decide whether to retain the adjustments for the Northern Territory based on State provided evidence about the existence of dual service delivery models.

Queensland supports this recommendation.

24.5 Re-estimate the proportion of administrative scale expenses to which the wage costs factor should apply through the collection of State data on the proportion of wage related expenses for head office functions and whole of State services such as Treasuries, for all the CGC's categories.

No firm position can be provided prior to advice of the outcomes from the proposed analysis.

24.6 Keep the administrative scale expenses up-to-date in updates following the 2020 Review by indexing them using the ABS State and local government final consumption expenditure deflator.

Queensland supports this recommendation.

24.7 Staff seek State views on whether administrative scale expenses should all be included in a component of the Other expenses category or separately identified in each expense category.

Queensland supports Administrative scale expenses remaining wholly as one component of Other Expenses.

25 OTHER DISABILITIES

25.1 Retain the 2015 Review approaches to cross-border disabilities for schools, post-secondary education, roads and hospitals.

Queensland supports this recommendation.

25.2 Retain a cross-border assessment for community health expenses.

Queensland supports this recommendation.

25.3 Collect updated evidence on cross-border use of ACT community health services by residents from New South Wales and use of New South Wales community health services by ACT residents.

Queensland supports this recommendation.

25.4 Not apply a cross-border factor to residual State disability expenses, other general welfare expenses and recreation and culture expenses, unless the ACT provides evidence of significant cross-border use and that use leads to identifiable costs for the ACT.

Queensland supports this recommendation.

25.5 Consider whether a community health specific method could be assessed to measure a cross-border factor or whether the general method, subject to a review of the proportion of the population from surrounding areas who are considered to use ACT services, should continue.

Queensland supports this recommendation.

25.6 Discontinue all the planning allowances unless the ACT can make a case for their continuation.

Queensland supports this recommendation.

25.7 Retain the police allowance and the 2015 Review method for calculating it and assess it as a separate factor in the Justice category.

Queensland supports this recommendation.

25.8 Continue to assess the native title component of the Native title and land rights assessment on an APC basis, subject to State views on alternative assessments.

Queensland supports this recommendation.

25.9 Decide on whether land rights expenses should be assessed for all States and, if so, how, after collecting State expenses on land rights.

Queensland supports this recommendation.

Attachment 2: Acronyms

ABS	Australian Bureau of Statistics
ACARA	Australian Curriculum, Assessment and Reporting Authority
ACT	Australian Capital Territory
AFP	Australian Federal Police
APC	actual per capita
ARIA	Accessibility/Remoteness Index of Australia
ATO	Australian Taxation Office
CAEPR	Centre for Aboriginal Economic Policy Research
CALD	culturally and linguistically diverse
CBD	central business district
CGC	Commonwealth Grants Commission
CoES	ABS Characteristics of Employees survey
ED	Emergency departments
EPC	equal per capita
FESLs	Fire and Emergency Services Levies
FHOGs	First Home Owner Grants
GFS	Government Financial Statistics
GST	Goods and services tax
HFE	horizontal fiscal equalisation
HILDA	Household, Income and Labour Dynamics in Australia

ICSEA	Index of Community Socio-Educational Advantage
IHPA	Independent Hospital Pricing Authority
IRSEO	Indigenous Relative Socio-Economic Outcomes
IRSEO+	a revised version of Indigenous Relative Socio-Economic Outcomes
km	kilometres
NAP	non-admitted patient
NDIS	National Disability Insurance Scheme
NDRRA	Natural Disaster Relief and Recovery Arrangements
NISEIFA	non-Indigenous Socio-Economic Indexes for Areas
NNR	National Network Roads
NWAU	national weighted activity unit
PC	Productivity Commission
QA	Quality Assurance
QGSO	Queensland Government Statistician's Office
SA2s	Statistical Area 2
SDC	socio-demographic composition
SEIFA	Socio-Economic Indexes for Areas
SES	socio-economic status
SRS	Schooling Resource Standard
SUA	Significant Urban Areas
UCLs	Urban Centres and Localities

Queensland Supplementary Submission

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Table of Contents

1.0 Overview

This submission provides supplementary information to Commonwealth Grants Commission's (CGC) staff for consideration of the 2020 methodology review following Queensland's response to the draft assessment papers as part of the 2020 Methodology Review (2020 Review), the Commissions visit to Queensland and the staffs Transport and Rural roads discussion papers.

The supplementary submission focusses on:

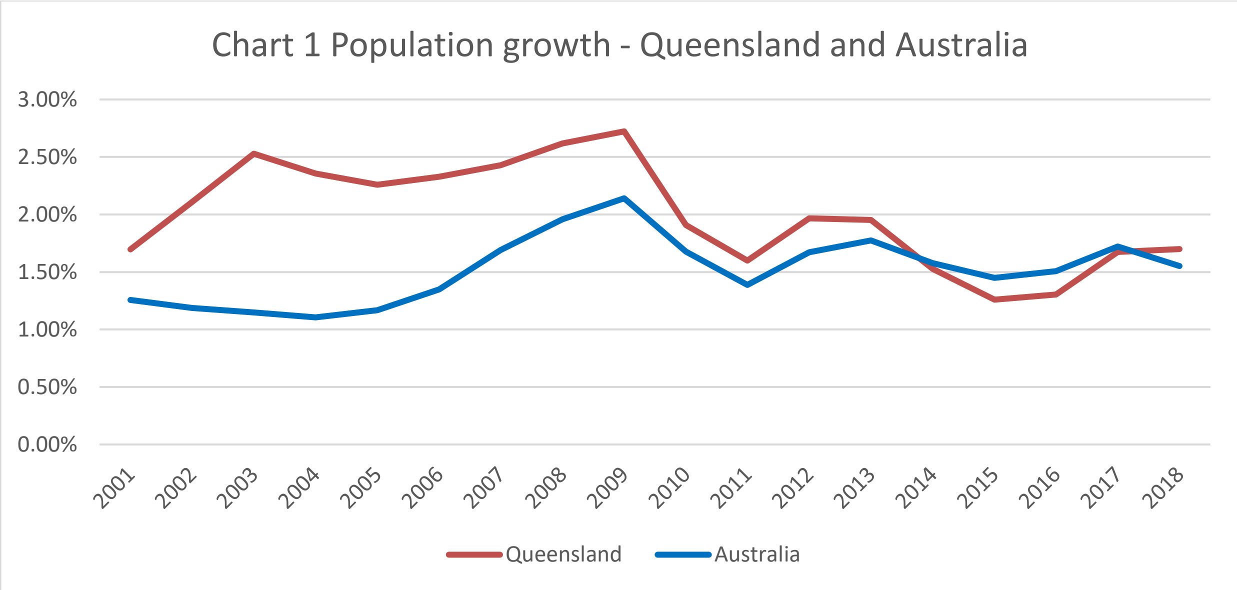
- Population changes – Despite a trend towards urbanisation, Queensland continues to have a large disadvantaged population living in regional and remote areas, as well as a large Indigenous population.
- Regional service delivery costs – Queensland continues to have high regional service delivery costs driven by vast population disbursement and the requirement to 'block fund' services.
- Densification – Some service delivery costs will increase with densification (e.g. urban transport and urban roads), but others should benefit from economies of scale.
- Rural roads assessment – the submission provides Queensland's position on proposed changes to the assessment of rural roads as discussed at the telepresence on Monday, 3 December 2018. That is, Queensland supports the proposed changes and seeks further information on how the CGC would apply similar changes to the urban roads assessment.
- Urban Transport assessment – additional comments on the consultant's report.

2.0 Population changes in Queensland

Queensland's position

- Despite a trend towards greater urbanisation, Queensland continues to have one of the largest populations living in regional and remote areas.
- Queensland has the second largest disadvantaged population living in regional and remote areas.
- Queensland also has the largest number of Indigenous population living in regional and remote areas.

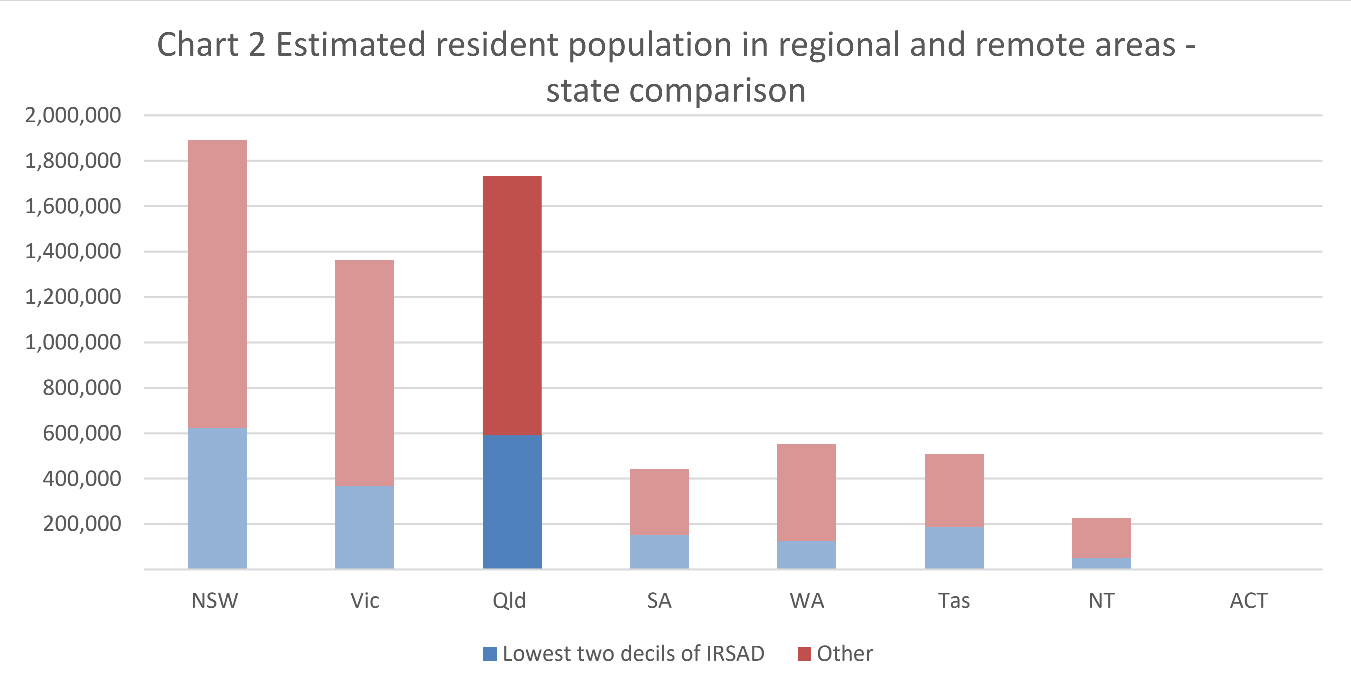
Queensland's population has increased steadily over the last two decades, increasing on average 2% a year. This has been faster than the national average annual growth of approximately 1.52%. Queensland's above average population growth over this period can be attributed to multiple social and economic factors (e.g. 'mining boom').



Source: ABS 3101.0 – Australian Demographic Statistics

Also over the last two decades, Queensland like most states in Australia has experienced increasing urbanisation. On average, Queensland's population living in regional and remote areas has increased by 1.46% over the last 17 years. This is significantly slower than the average annual growth rate of approximately 2.4% experienced by major cities in the State. Consequently, population share of regional and remote areas has declined steadily from almost 40% in early 2000s to only 36% by 2017.

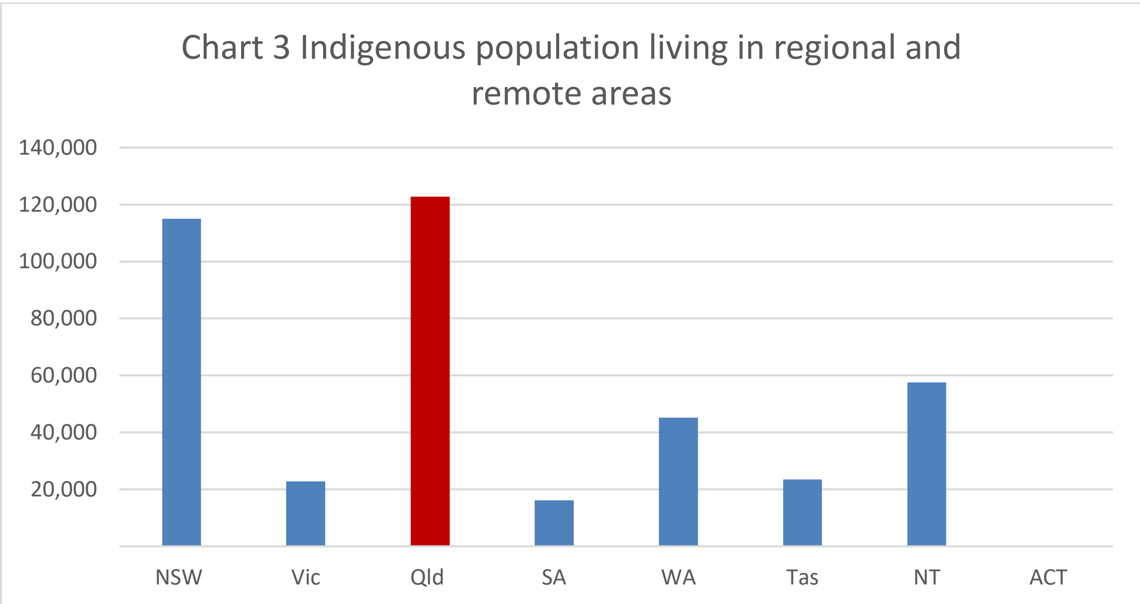
Despite a decline in the proportion of population living in regional and remote areas, Queensland continues to have the largest proportion of its population living in regional and remote areas among the largest five states. It also has the second largest number of residents living in regional and remote areas (1.7 million) of any state and the largest number of residents living in outer regional and remote areas (791,680).



Source: ABS Census 2016

Of the population living in regional and remote locations, more than half a million are from the lowest two deciles of the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the second largest in Australia.

Social disadvantage in regional and remote areas is also accompanied by high levels of Indigeneity. Queensland has more than 122,000 Indigenous individuals living in regional and remote areas. This is approximately 19% of the total Indigenous population in Australia. Queensland has the highest number of Indigenous individuals living in regional and remote areas of any state.



Source: ABS Census 2016

Queensland's unique demographic composition have significant implications for the cost of service delivery in regional and remote areas. This is explored in the following section.

3.0 Regional cost

Queensland's position

- Queensland continues to have strong demand for government services in regional and remote areas.
- Per capita expenditure in regional and remote remains high in part because of the need to block fund services.
- Technology does not have a significant impact on the cost of service delivery in regional and remote areas.

In Queensland, high expenditure on government services in regional and remote areas is driven by strong demand from a large population (including a large Indigenous population), and compounded by high levels of social disadvantage. Despite a trend for the population to move toward urban areas, expenditure remains high in part because of the need to block fund services (ie. high cost).

Block funding is any non-individualised funds that purchase goods or services directly from the provider. There is a role for block funding where markets would not otherwise support key services. This could occur when a market is too thin to sustain providers, for example, highly specialised support for rare conditions; services which have substantial upfront fixed costs, and some forms of support for which there are only a few potential customers. In regional and remote areas, a combination of these conditions prevails, making block funding necessary but also costly per capita.

Most Queensland social service departments utilise block funding in regional and remote areas. Queensland Health has 85 block funded hospitals, mostly located in outer regional, remote and very remote locations. The Queensland Department of Housing and Public Works also block fund service providers in regional and regional areas that deliver counselling for drug and alcohol addiction, domestic and family violence and employment assistance.

Some states have suggested that technological improvements over the last decade have enabled new methods of service delivery which reduce service delivery costs in regional and remote areas. Queensland recognises the role technology plays in service delivery but has not experienced any material decrease in service delivery costs. For most services, technology has not lead to a higher service delivery scale, or a significant reduction in travel costs. For example, Telehealth, which allows patients in rural and remote locations to use videoconferencing facilities to speak to health professional from a hospital, has reduced travel requirements in some instances. However, this service is only available from certain locations and is only appropriate for some patients. Patients with other complicated treatment or procedures, or living in locations without Telehealth service still require either the patient or the health professional to travel.

Queensland considers that technology can facilitate service delivery, but will not fundamentally change the way services are being delivered in regional and remote areas at least in the short- to medium-term.

4.0 Densification and its impact on government services

Queensland's position

- Queensland supports the CGC's methodology to recognise higher cost because of higher population density only in services where a strong conceptual case exists.
- The only services where there is strong evidence higher population density leads to higher per capita cost is in urban transport and urban roads.
- Other than urban transport and urban roads, Queensland does not support including population density as an additional disability in other service categories as there is insufficient evidence that it leads to higher per capita costs.

Conceptually, increased population density could increase the cost acquiring land and build infrastructure. It may also increase costs associated with managing crowds and congestion. However, delivering services in densely populated areas may also lead to greater service delivery scale which could lower per capita cost.

Higher cost because of population density in urban transport and urban roads are currently reflected in the CGC's assessment methodology. For urban transport, both the current assessment for recurrent expenditure requirement and capital expenditure requirement assume that population increase leads to higher per capita cost. For urban roads, traffic volume is currently used as a proxy for population density. Queensland supports the conceptual case for these approaches.

Urban transport is more expensive to deliver in denser cities because they require more expensive infrastructure to cope with the transport task. In sparsely populated cities, congestion is not an issue and most of its residents use private transport for commute. The lack of congestion and lower demand for public mass transit services mean buses are the most efficient mode of mass transport. As density increases, so too does the level of congestion. In highly populated cities, buses are no longer sufficient for the transport task, and increasing the number of buses operating in the system only adds to congestion. Rail becomes the most efficient option, but is overall costlier to construct and maintain.

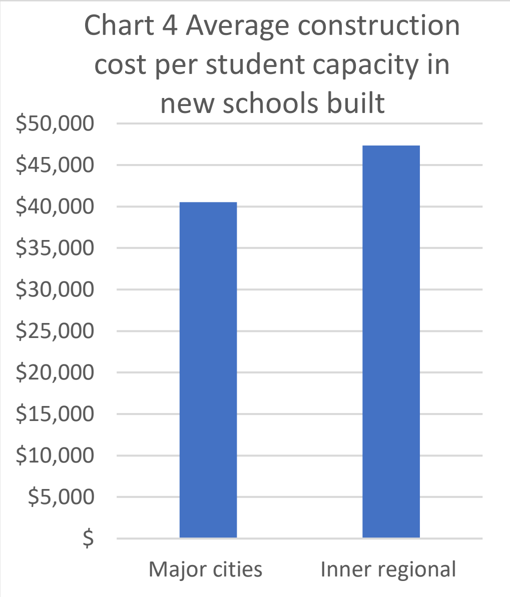
Similarly, population density leads to higher congestion and wear and tear on road infrastructure. Consequently, urban roads that have higher traffic volume are required to be maintained more frequently. They also need to be built with more durable material to ensure they do not fail between maintenance and fitted with more safety infrastructure that also manages traffic. In some cases, existing roads would also have to be widened to accommodate for the increase in traffic.

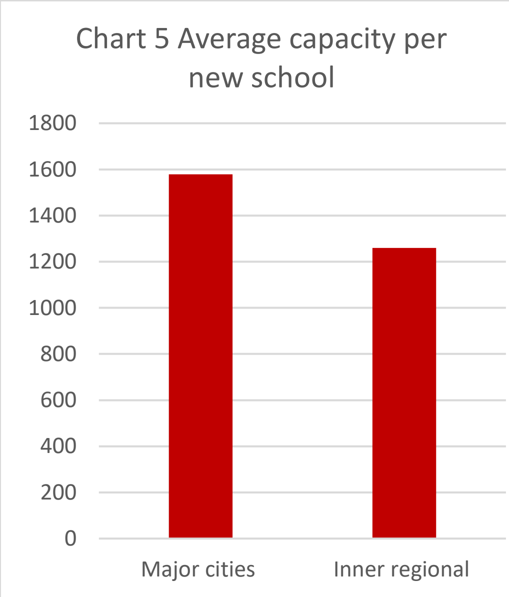
However, the impact of population density on the per capita cost of other government services is not as strong, as they rely less on infrastructure. Unlike urban transport and urban roads, other services are more flexible in their service location and can avoid significant costs associated with acquiring land and building. Queensland does not support including an additional population density as an additional disability in other service categories because there is insufficient evidence that it leads to higher per capita costs. The case study below illustrates education capital costs in Queensland is lower in more densely populated areas.

Case study: Queensland education capital expenditure

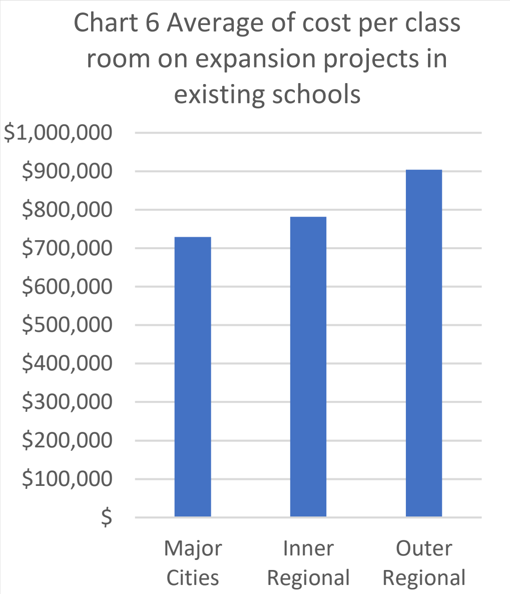
Queensland has undertaken 80 capital projects relating to primary and secondary education over the last three years. Of these, 71 projects were to expand the capacity of existing schools. Only nine projects were to build new schools.

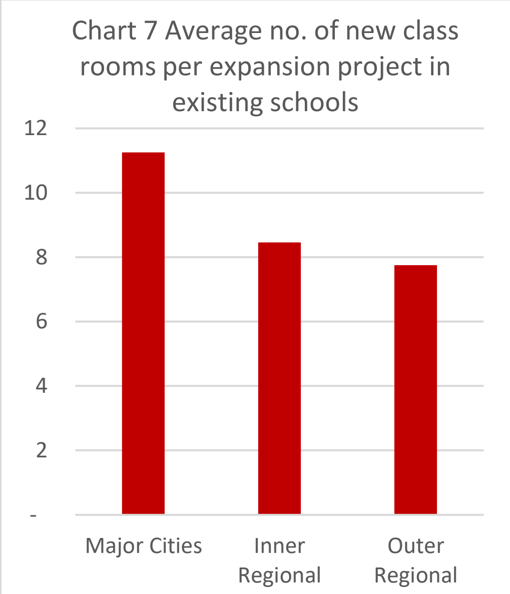
Six of the nine schools were built in inner regional areas with an average capacity of 1,579 students and an average cost of $60.8 million. Three schools were built in inner regional areas with an average capacity of 1,260 students and an average cost of $54.86 million. The average cost per student in schools built in major cities was $40,543 compared to an average cost per student of $47,334 for schools built in inner regional schools.





Of the 71 projects to expand existing schools, 56 of these projects occurred in major cities, 11 in inner regional areas and 4 in outer regional areas. The average expansion in major cities was 11 class rooms and costed on average $7.75 million. This is bigger than the average expansion of 8 class rooms in inner regional and outer regional schools which costed on average $6.42 million. Chart 6 below shows the average cost per classroom for the expansion projects was the highest in outer regional schools while projects in major city schools had the lowest cost per classroom.





Key findings from the data

- Existing schools are being expanded to increase capacity before new schools are built
- There are more capital projects in major cities and inner regional areas to meet a growing demand for services from population increases
- Schools are on average more expensive to construct in major cities, but they are also bigger and have more capacity. As a result, their cost per student is lower compared to schools built in regional and remote areas.
- The average cost per class room appears to increase with remoteness
- There is no evidence to suggest per capita cost increases with population density

Research on the relationship between per capita cost of service delivery and population density also seems to offer mixed conclusions. A study that analysed the impact of both population size and population density on the per capita cost of public goods provided by German states suggests that there is no cost disadvantage for highly urbanised nor sparsely population regions[1]. But an older study of 247 large counties in the U.S.A appears to indicate that population density has a U-shaped relationship to the cost of providing public services[2]. That is, per capita cost of providing public services reduces when population density increases in sparsely populated areas, but increases again as population density continues to increase. However, both studies are dated and focus on one country only.

[1] Thiess Buttner, Robert Schwager and Dan Stegarescu, Agglomeration, 2004, *Agglomeration, Population Size, and the Cost of Providing Public Services: An Empirical Analysis for German States,* Centre for European Economic Research.

[2] Helen F. Ladd, *Population Growth,* 1992, *Density and the cost of providing public services,* Urban Studies, Vol. 29, No. 2

5.0 Rural road length

Queensland's position

Queensland supports the proposed changes to the assessment of the rural road network:

- use the synthetic network as the base of a re-estimated rural road length measure
- adjust the synthetic network to account for roads connecting to significant landmarks
- adjust the synthetic network to account for lane kilometres

Queensland supports improving the urban roads assessment, but does not currently support applying the proposed approach to the rural road assessment.

5.1 Overview

As part of the 2020 Review, the CGC is reviewing its methodology to assess states' recurrent expenditure on rural roads. The existing rural road assessment relies on a synthetic road network developed for the 2010 Review to calculate states' total road lengths. The assessment was updated in 2015 with new data. This network is used because actual road network is affected by policy choice, which makes a direct comparison of total road length between states inappropriate. The CGC is reviewing the methodology it had developed in 2010 for the synthetic network as well as the impact of updated population data on the synthetic network.

Based on the CGC's analysis, it has proposed to retain the 2015 approach on determining rural road length with some adjustments to ensure the assessment better reflects what states do:

- Retain the synthetic network developed in the 2010 Review with the following modifications:
    - Retain the two-step approach, but revise underlying parameters:
        - The fastest connecting route is included between each neighbouring UCLs of population more than 1,000 (previously 4,000).
        - Small UCLs of less than 1,000 population (previously 400 to 4,000) are connected to the two (previously six) closest UCLs of population over 1,000 (previously 4,000)
    - Adjust the synthetic network to account for connections to
        - significant mines and their nearest port,
        - ports and their nearest UCL, and
        - national parks and their nearest UCL.
    - Adjust the total rural road network to account for lane kilometres of roads with more than two lanes

5.2 Use of the synthetic network

Queensland agrees that a synthetic network continues to be preferable to using actual rural road network. This is because the actual road network remains heavily influenced by policy choice. Queensland agrees with the CGC that the task of adjusting networks to include or exclude relevant roads requires significant judgement calls. This only adds complexity and reduces transparency.

5.3 Adjusting the synthetic network to include connections to significant areas

Queensland supports adjusting the synthetic network to include connections to significant areas.

One deficiency with the synthetic network is it only accounts for roads between population centres. While a significant proportion of the road network serves this purpose, roads are also constructed to connect population centres to recreational and commercial areas.

Not including an adjustment for roads to significant areas assumes Queensland's share of roads to significant areas are the same as its share of total roads on the synthetic road network. However, the total length of roads to significant areas provided by the CGC indicates that the distribution of these roads is significantly different to the synthetic network for some states. For example, Queensland has approximately 23% of the total rural road kilometres in the synthetic road network, but almost 40% of the roads to significant areas.

5.4 Adjustment for lane kilometres

Similar to the adjustment for roads to significant areas, Queensland supports an adjustment to account for rural roads with multiple lanes. However, the construction of multi-lane highways could be subject to policy choice. While the CGC's analysis that the current lane kilometre data does not show any signs of policy influence, the CGC should conduct a periodic review of this data is appropriate to ensure the data remain policy neutral.

5.5 Urban road length

Like actual rural road length, actual urban road lengths are not directly comparable between states because of differences in road classification policies between states. While urban population is currently used as a proxy for the length of urban roads, this may be an imperfect measure and better alternatives should be explored.

Queensland supports improving the urban roads assessment, but does not currently support applying the CGC's proposed method of constructing a synthetic road network to urban roads. Queensland welcomes additional information on the CGC's proposed methodology. The synthetic network for rural roads lends itself very clearly to a network with nodes (UCLs) and connections (roads), and the use of Voronoi Polygons allows for a simple and measurable way of determining which nodes are adjacent. These concepts do not appear to be directly applicable in an urban setting without using significant judgement.

6.0 Urban Transport Consultancy – Satellite cities

Queensland has reviewed the consultant's proposal to determine satellite cities using a threshold of employment self-sufficiency. While the proposal has its merits, it is too simplistic to capture the complex interactions that neighbouring SUAs have on public transport demand and network complexity. This section will expand on Queensland's response to the urban transport consultancy paper in relation to the consultant's proposals for satellite cities.

Consultation with Queensland's Department of Transport and Main Roads has indicated that workforce movement between areas is a large component of the total transport task but there are other factors which comprise a significant portion of transport capacity—for example, transport for tertiary students (with major institutions primarily located within Brisbane) and tourism—which the consultant's proposal ignores. Because of this, the only appropriate measure for determining the inclusiveness of satellite cities is to consider all public transport journeys between SUAs. The proposed workforce dependency does not account for all relevant factors.

To do this, CGC may source transport data from states, which would be more dynamic than Census data, and be available for regular updates. While necessary data may not be available for all SUAs, it should be able to be sourced for all relevant candidates for satellite cities in Australia. Adelaide, Hobart, Canberra and Darwin do not have any neighbouring SUAs, and as a result, detailed transport data would only be required for Sydney, Melbourne, Brisbane and Perth, and their surrounding SUAs.

While not related directly to satellite cities, state-sourced transport data may also be an improvement over the 'method of transport to work' sourced from the ABS. In addition to contemporaneity issues raised in Queensland's original submission, Queensland notes that there were 9.2 million commuters on Census day (of which 14% took public transport), and 1 million employed persons who did not work on Census day. With a significant number of employed persons not accounted for in method of transport to work data, Queensland is concerned this data set is not fit for purpose.

Queensland also has concerns with the 60% working outside and 40% working in the capital city thresholds which are used to determine satellite cities. While the rationale has been outlined that workforce dependency reflects a need for transport between SUAs, the basis for selecting these thresholds is not clear and if lower thresholds would more accurately capture the effect of satellite cities on a city's urban transport task. Queensland requests the CGC provide states with the sensitivity analysis for the thresholds.

Further, the consultant's proposal for satellite cities has suggested the application of a hard threshold, with anything exceeding the threshold being considered a satellite city, and anything not meeting the threshold being treated as a separate city. In practice, there would exist a scaling dependency between neighbouring SUAs as populations grow, with public transport demand gradually growing as dependency between SUAs increase. This is particularly critical to Queensland, as both the Gold Coast and Sunshine Coast are two of Australia's fasted growing SUAs (which is also a trait shared by the other satellite SUAs considered by in the consultant's paper), and it is evident that the public transport task is more complex due to the interaction between these SUAs and Brisbane. Using state public transport data as recommended above, would also overcome the issues associated with the hard threshold, as it could capture the varying levels of public transport dependency between SUAs.