

# Proposed approach and work program – 2025 Methodology Review

## Queensland submission

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**Queensland  
Government**

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## Summary

Queensland Treasury appreciates the opportunity to provide input to the Commonwealth Grants Commission's Proposed Approach and Work Program.

A summary of Queensland's positions is provided in the table below. Details are provided in sections 1 to 7.

### SUMMARY OF QUEENSLAND POSITIONS

Commission proposal	Queensland position
<p><b>Key objectives</b> – the Commission commits to close consultation with States throughout the review and stresses the importance of considering all assessment methods.</p>	<p><b>Support</b></p>
<p><b>Proposed approach</b> – the Commission commits to applying a consistent framework to all assessment methods with a basis of <i>'what is different since the 2020 Review?'</i>.</p>	<p><b>Do not support</b>, there are many valid reasons for reviewing assessments and these should be considered, regardless of whether there have been developments since 2020.</p> <p>Furthermore, methodology reviews are the appropriate mechanism to review and adjust assessment methods, and any changes should be open to consideration. In line with this framework however, Queensland will demonstrate a case for change supported by evidence.</p>
<p><b>Reviewing supporting principles</b> - In keeping with the above approach, if states consider that a supporting principle should be changed, it is proposed they also identify what they consider are the developments since the 2020 Review that support the need for any change.</p>	<p><b>Do not support</b>, any changes to the principles should be guided by what is best practice in shaping assessment methodology, regardless of whether there have been developments since 2020.</p>
<p><b>Reviewing assessment methods</b> – alternative assessment methods should be considered based on whether a conceptual case exists, is supported by evidence, can be assessed by fit for purpose data and results are considered material. Discounts may be applied in instances where there is uncertainty in assessment datasets.</p>	<p><b>Support</b>, with discounts applied in instances where there is uncertainty in assessment methods.</p>
<p><b>Proposed work program – Commission visits</b> – the Commission endeavours to meet with each State, with States invited to nominate preferred times for this visit.</p>	<p><b>Support</b></p>
<p><b>Proposed work program – Workload tranches</b> – The Commission proposes to divide the release of consultation papers on assessment method into 2 tranches rather than circulating them all at the same time. This is intended to provide more time than previous reviews for states and the Commonwealth to consider, and respond to, consultation papers.</p>	<p><b>Support</b>, with adjustment to increase the time allowed for tranche 1.</p>
<p><b>Proposed work program – Method changes between reviews</b> – The terms of reference ask the Commission to consider if there is a case for it to be given the flexibility to consider changes to assessment methods in between reviews in cases where there is a significant, unanticipated shock (such as a pandemic) or where major policy reforms are enacted.</p> <p>The Commission proposes bilateral meetings with states in the second half of 2023 (July 2023), and prior to releasing a consultation paper on this issue (November 2023).</p>	<p><b>Support</b>, the opportunity to engage on this issue.</p>

# 1. Key Objectives

The Commission proposes that the key objectives for the 2025 Review should be:

- close consultation with states, so that they can:
  - provide their views on the appropriateness of assessment methods
  - make the case for changes they consider necessary
  - have input to, and understand, Commission decisions.
- both the Commonwealth and the states have confidence that, following the 2025 Review, the overall approach to measuring state fiscal capacities is sound; and all assessment methods are appropriate and rigorous, and draw on high quality, fit for purpose data.

With a 5 yearly cycle for methodology reviews, the Commission believes it is important that the 2025 Review considers the appropriateness of all assessment methods, rather than only considering a limited set. The Commission is committed to meaningful consultation with states and the Commonwealth throughout the review. The proposed approach to the review, as outlined in this paper, has been designed to make the most efficient use of the time available so that these priorities can be achieved.

## Queensland position:

- Queensland supports the open position of the Commission, with states given the opportunity to consult on assessment methods and have input to Commission decisions.
- Queensland agrees that all assessment methods should be open to review, with no assessments excluded or restricted from consideration. It is important that states are afforded this opportunity given that methodology changes are typically restricted to the five year methodology review cycle.

# 2. Proposed approach

The Commission is proposing a consistent framework to apply to reviewing all assessment methods and supporting principles. The framework will be the basis for assessing whether there may be a case for change that requires further investigation through the review process. Essentially it proposes to ask, *'what is different since the 2020 Review, and what is an appropriate response?'*

The Commission states that possible changes in circumstances since the 2020 Review include:

- States may be behaving differently. This can include changes to the natural environment, and economic, social and demographic changes, along with technological and geopolitical shifts.
- There may new evidence of an issue relevant to the Commission's approach. This would generally be information that has become available since the 2020 Review or has not been considered previously. This might involve evidence of significant volatility, complexity, incomplete coverage or measurement problems.
- There may be changes in data availability or new statistical methods. This could include 'big data' and machine learning or more nuanced datasets.

In keeping with this approach, if states consider that an assessment method should be changed, it is proposed they also identify what they consider are the developments since the 2020 Review that support the need for any change.

If no developments are identified that suggest a method may need to be changed, the Commission proposes to ensure, in consultation with the states, that current methods meet materiality guidelines, and the most up-to-date data are being used.

## Queensland position:

- Queensland welcomes the opportunity to propose assessment methods changes for CGC consideration.
- Queensland does not support the position that the starting point for the review should be based on 'what has changed since the 2020 review'. This assumes that the assessment methods used in 2020 are without issue.
- There are other circumstances under which it would be beneficial to review an assessment such as to further explore and prosecute unresolved issues, to monitor and review significant developments made in previous reviews, and where assessments have remained unchanged for an extended period or due to extenuating

circumstances, for example that the mining assessment was not able to be reviewed by the CGC in the 2020 review.

- Methodology reviews provide the appropriate opportunity to review and adjust assessment methods used to distribute GST revenue. Queensland therefore maintains that the Commission should consider any changes during the 2025 methodology review. In line with the proposed framework however, Queensland will present a case for change for any adjustments, supported by evidence or observations.
- While Queensland supports adopting new forms of evidence and analytical tools to improve the rigour of assessment outcomes, any changes would need to be appropriately considered by states including the CGC providing details of the consistency and reliability of the new data and methods, and a clear understanding of potential impacts on the relevant assessment.
- Any consideration of new datasets and methods should also bear in mind the practicality supporting principle.

### 3. Reviewing supporting principles

Since the 2015 Review, the Commission has used 4 supporting principles to guide its approach to designing methods for assessing the fiscal capacities of states. These are:

- what states do
- policy neutrality
- practicality
- contemporaneity.

This review provides an opportunity to consider if these supporting principles remain appropriate or alternatively, require adjustment or change. Similarly, the Commission will consider developments that might indicate that the assessment guidelines should be changed. For example, it may be appropriate to adjust materiality thresholds to ensure simplicity benefits are not eroded.

In keeping with the above approach, if states consider that a supporting principle should be changed, it is proposed they also identify what they consider are the developments since the 2020 Review that support the need for any change.

#### **Queensland position:**

- Queensland welcomes the opportunity to comment on supporting principles and supports the Commission considering guideline updates, such as adjustments to materiality thresholds. It is expected that with any changes to assessment guidelines, states will be appropriately consulted.
- Queensland does not support using developments since the 2020 review as the basis for any change to supporting principles. The supporting principles are designed to guide the development of assessment methodology. Any changes to these principles should therefore be based on what is considered best practice in achieving this objective.

### 4. Reviewing assessment methods

If developments since the 2020 Review are identified that question the appropriateness of an assessment method, the Commission proposes to explore this thoroughly and see whether the method can be improved. This might include incorporating different analytical techniques or underlying drivers, using alternative datasets, or revising the number of components within a method. Similarly, if states identify that developments suggest an assessment method is no longer appropriate, it is proposed they also identify how it could be improved.

Alternative approaches would be tested against the assessment guidelines, which currently consider whether:

- a conceptual case exists
- the conceptual case is supported by evidence
- the method can be supported by data that are fit for purpose

- the assessment method outcome would be material.

Identifying that there may be a case for changing an assessment method does not necessarily mean that the method will be changed. If a better alternative cannot be identified, the Commission may decide to maintain its current approach. However, in instances where there is uncertainty in the quality of a particular dataset, the Commission can apply discounts or weighted sets of data to a particular assessment calculation. The Commission would only apply such changes after consulting with the states.

### **Queensland position:**

- Queensland supports the proposed approach to review methods in line with the assessment guidelines described. We agree that as a first principle any changes to assessment methods should have a strong conceptual basis and be underpinned by supporting evidence. Any assessment methods should also use fit for purpose data and have material outcomes.
- Prior to the review, it would be beneficial for the Commission to run workshop sessions on current assessment methods particularly for mining, transport, health, investment, net borrowing, wages, schools and justice before the release of tranche 1 consultation papers. This would position states to comment on any proposed changes in an informed manner, and ensure that any feedback from consultation is well considered.
- Queensland maintains that it is appropriate to apply the use of discounts where there are issues of uncertainty in assessment methods and where alternative measures do not exist.

## **5. Proposed work program – Commission visits**

During the course of the review, the Commission welcomes opportunities to meet with each state. Meetings with the Commission would be in addition to the ongoing discussions states have with Commission staff. While most bilateral meetings with the Commission and staff are likely to be conducted online, the Commission will endeavour to visit each state as part of the 2025 Review. States will be invited to nominate their preferred timing for this visit.

### **Queensland position:**

- Queensland welcomes the opportunity to meet with the Commission through state visits and will work with the Commission to nominate a preferred time.

Queensland welcomes the offer from the Commission to be available for frequent engagements through the review process.

## **6. Proposed work program – Workload tranches**

The Commission proposes to divide the release of consultation papers on assessment method into 2 tranches rather than circulating them all at the same time. This is intended to provide more time than previous reviews for states and the Commonwealth to consider, and respond to, consultation papers.

The proposed work program and allocation of assessments is listed in the tables below.

<b>Date</b>	<b>Event</b>
30 June 2023	Commission issues tranche 1 of assessment consultation papers to states.
September 2023	State submissions on tranche 1 papers are due.
November 2023	Commission issues tranche 2 of assessment consultation papers to states.
March 2024	State submissions on tranche 2 papers are due.

### **Tranche 1**

Revenue	Expenses	Other
Payroll tax	Schools	Commonwealth payments
Land tax	Post-secondary education	Wages
Stamp duty on conveyances	Health	Socio-economic status
Insurance tax	Services to communities	
Motor tax	Justice	
Mining revenue	Transport	
	Native title and land rights	

## Tranche 2

Revenue	Expenses	Other
Other revenue	Housing	Tax reform and elasticity adjustments
	Welfare	Investment
	Roads	Net borrowing
	Services to industry	Regional costs / remoteness
	Other expenses – service expenses	Adjusted budget
	Natural disaster relief	
	Administrative scale	
	National capital	

## Queensland position:

- Queensland supports the Commission dividing the consultation process into tranches as this will allow states to better manage workload pressures and undertake a more considered review of assessment methods.
- However, Queensland is of the view that the time allocated for tranche 1 of 3 months is insufficient given the number of complex issues included within this tranche. This is also during a period in which Queensland is preparing for 2024 updates and undertaking revenue forecasting.
- Queensland proposes that the Commission allocate one extra month to tranche 1, with state submissions due end of October 2023 rather than September 2023.
- To assist with workload planning, Queensland would welcome clarity on the exact dates for key events in the latter half of 2023 and across 2024, particularly the exact issue dates and due dates around consultation papers. Dates around 2025 data returns should also be added to the calendar, once known.

## 7. Proposed work program – Method changes between reviews

The terms of reference ask the Commission to consider if there is a case for it to be given the flexibility to consider changes to assessment methods in between reviews in cases where there is a significant, unanticipated shock (such as a pandemic) or where major policy reforms are enacted.

The Commission proposes bilateral meetings with states in the second half of 2023 (July 2023), and prior to releasing a consultation paper on this issue (November 2023). Drawing on the views raised in the meetings with the states, the consultation paper will summarise the issues and present the Commission's preliminary position on method changes between reviews. States will be invited to comment on the consultation paper.

## **Queensland position:**

- Queensland welcomes the opportunity to share its views on the potential case to allow method changes between reviews.
- It is mentioned that states will have the opportunity to provide comment on the consultation paper but key dates for state submissions are omitted from the work program calendar. We would request that the due date for state submissions on this consultation paper be added to the work program calendar.



