

# **Assessment consultation papers – Tranche 2 – 2025 Methodology Review**

## **Method changes between reviews**

### **Queensland submission**

1 March 2024



**Queensland  
Government**

## **Contact officer:**

Matthew Nalder

Principal Treasury Analyst

Economic Strategy

Queensland Treasury

(07) 3035 1818

[Matthew.Nalder@Treasury.qld.gov.au](mailto:Matthew.Nalder@Treasury.qld.gov.au)

## Proposed changes

Based on information provided in the consultation report, the Commission's proposed questions are:

- *Do states agree that there may be situations, such as a significant unanticipated shock or major policy reform, such that there is a case to extend the circumstances when the Commission may need to consider alternative methods between reviews?*
- *Do states agree that the circumstances supporting the case to extend the Commission's flexibility to change methods between reviews should include:*
  - *major unexpected developments that have a significant impact on state fiscal positions, are not captured in existing assessment methods, and a change in methods is required for the Commission to achieve the objective of fiscal equalisation?*
- *Do states agree that any consideration of whether method changes are warranted between reviews be undertaken in consultation with the states and the expectation should be that this flexibility would only be exercised in very limited circumstances?*
- *Should the extended flexibility to change assessments between reviews in certain circumstances be operationalised in standing terms of reference for updates?*

## Queensland positions

***Do states agree that there may be situations, such as a significant unanticipated shock or major policy reform, such that there is a case to extend the circumstances when the Commission may need to consider alternative methods between reviews?***

***Do states agree that the circumstances supporting the case to extend the Commission's flexibility to change methods between reviews should include:***

- ***major unexpected developments that have a significant impact on state fiscal positions, are not captured in existing assessment methods, and a change in methods is required for the Commission to achieve the objective of fiscal equalisation?***

Queensland supports the case that there may be exceptional circumstances where the Commission could consider alternative methods between reviews, and this could include unanticipated shocks or major policy reforms. The threshold for this should be very high.

However, Queensland considers that the Commission should, as a default position, consider methodology changes only in a five year review. This provides consistency in assessment methods, reduces volatility across updates and offers states a greater degree of certainty in forward planning.

***Do states agree that any consideration of whether method changes are warranted between reviews be undertaken in consultation with the states and the expectation should be that this flexibility would only be exercised in very limited circumstances?***

***Do states agree that there may be situations, such as a significant unanticipated shock or major policy reform, such that there is a case to extend the circumstances when the Commission may need to consider alternative methods between reviews?***

In principle, while Queensland does not oppose the Commission having the capacity to make method changes in exceptional circumstances between reviews in response to extra-ordinary events, it considers there to be a high risk of policy contamination resulting in unfair outcomes between jurisdictions.

As a result, we would recommend that the Commission should consider these events very carefully and separately to the standard process adopted for the remainder of an annual update process.

Further, Queensland also considers that a greater degree of consideration and scrutiny, including consultation with jurisdictions, should be applied to any consideration of changes related to 'major policy reforms' compared with 'unanticipated shocks'.

In many cases, other mechanisms, such as Commonwealth payments, may provide a more appropriate, flexible or timely mechanism to respond to the differential impacts of specific unanticipated events on jurisdictions, and may already have been implemented. The Commission must therefore consider whether these mechanisms are in use, and where they are, consider whether any changes to GST methods is appropriate or could be potentially duplicating the 'support' being provided to jurisdictions negatively impacted by the shock.

Given the considerable concerns over providing the Commission with scope to make material methodological changes during updates, Queensland supports that the power for the Commission to consider such a methodology change between reviews should *only* be exercised in very exceptional circumstances and must be appropriately constrained by an agreed decision-making framework, as outlined below.

**A framework for any method change between reviews must include a much higher materiality threshold than applicable in the context of normal changes considered in an Annual Update or Review, with this higher threshold having to be exceeded before any power for the Commission to consider a method change is enlivened.**

- This threshold should materially exceed the current materiality threshold that applies of \$40 per capita.
- Queensland's preliminary recommendation would be that materiality for such a change should be **more than double the standard materiality threshold** at more than \$80 per capita.
- However, an even higher threshold may be more appropriate depending on the circumstances, including whether the event is something beyond the control of all States and Territories, or its impacts result from, or are inflated by, policy decisions of the affected jurisdiction.
- **This materiality threshold must be exceeded in the specific state or states impacted by the relevant event**, rather than in any other state. This is important to prevent a circumstance where a change could be enacted only due to the materiality threshold being exceeded in a smaller state as a flow on-effect of the redistribution process resulting from an unexpected event in a larger state (but where the redistribution impact on the directly impacted state was not that significant).
- While it is essential that the higher materiality threshold would need to be met for any changes, Queensland also views that careful consideration should be given to any changes that significantly exceed materiality thresholds as this will result in large movements in GST redistributions. Should a case for change be demonstrated, the Commission and states may decide that it would be more appropriate to hold such a change until it can be fully considered during a full methodology review.

**Once the materiality threshold is met, a higher degree of consultation than in a standard annual update review is required. In particular:**

- Rigour must be applied reflecting the significant materiality of the method change, including the Commission outlining a proposed position and providing the results of testing and analysis to the states in a consultation paper, and states having an appropriate opportunity to consider in detail, respond and submit alternative options for consideration.
- A case for change must be clearly established by the Commission, and rigorously underpinned by strong data and evidence in a comprehensive issues paper. Without meeting these requirements, no change should be made.
- The Commission should thoroughly investigate any proposed options to determine how each option addresses issues resulting from an event or policy change, and reach a determination on whether this offers an improvement over existing methods.
- Where an option does not demonstrably improve on existing methods or deliver outcomes consistent with the HFE principles, the option should not be further considered.
- In selecting its preferred option, the Commission must provide detailed reasons for its decision including a clear rationale on why this option was selected over others, the evidence relied upon in this regard, and an estimation of the distributional impact of this option compared to current methods.
- The consultation with states must involve a genuine attempt to engage with states on the issue. This cannot be a rushed process and should provide states with ample time to consider the issue. Where this is unlikely to occur, a proposed change should be deferred for further examination and consideration in the next methodology review.

**Should a method change be implemented between reviews through this process, the option should be reviewed by the Commission with States and Territories at each annual update pending the next method review, and included for reconsideration in the next method review.**

- This element of the framework will help ensure that the change is appropriately reviewed and considered in terms of the extent to which it is addressing the issues resulting from a specific extra-ordinary event and is not producing adverse outcomes. Should the latter be established, the method change should be suspended.

**For any changes made in response to events that are temporary in nature (e.g. a pandemic), the Commission's consideration of the proposed method change should include a clear process for when and how the changes can be unwound as the event concludes.**

An indicative framework is outlined in detail in the flow diagram (Appendix A) below. This framework outlines the key elements and standard set of processes (case for change; options analysis; consultation; review) and decisions governing how the Commission should approach consideration of any future events of this nature. Applying such a framework is important as it provides consistency and reliability, and limits the use of discretion allowing states to have more confidence in any methodological changes that may result.

**For consideration of *any* method changes in between Reviews (both in response to unanticipated shocks or policy reforms), a greater level of consultation than the current new issues process would be essential, with the process being open to full and detailed interrogation by states. In particular, to account for the greater degree of rigour required, states would require ample time for consultation before a method change could be implemented.**

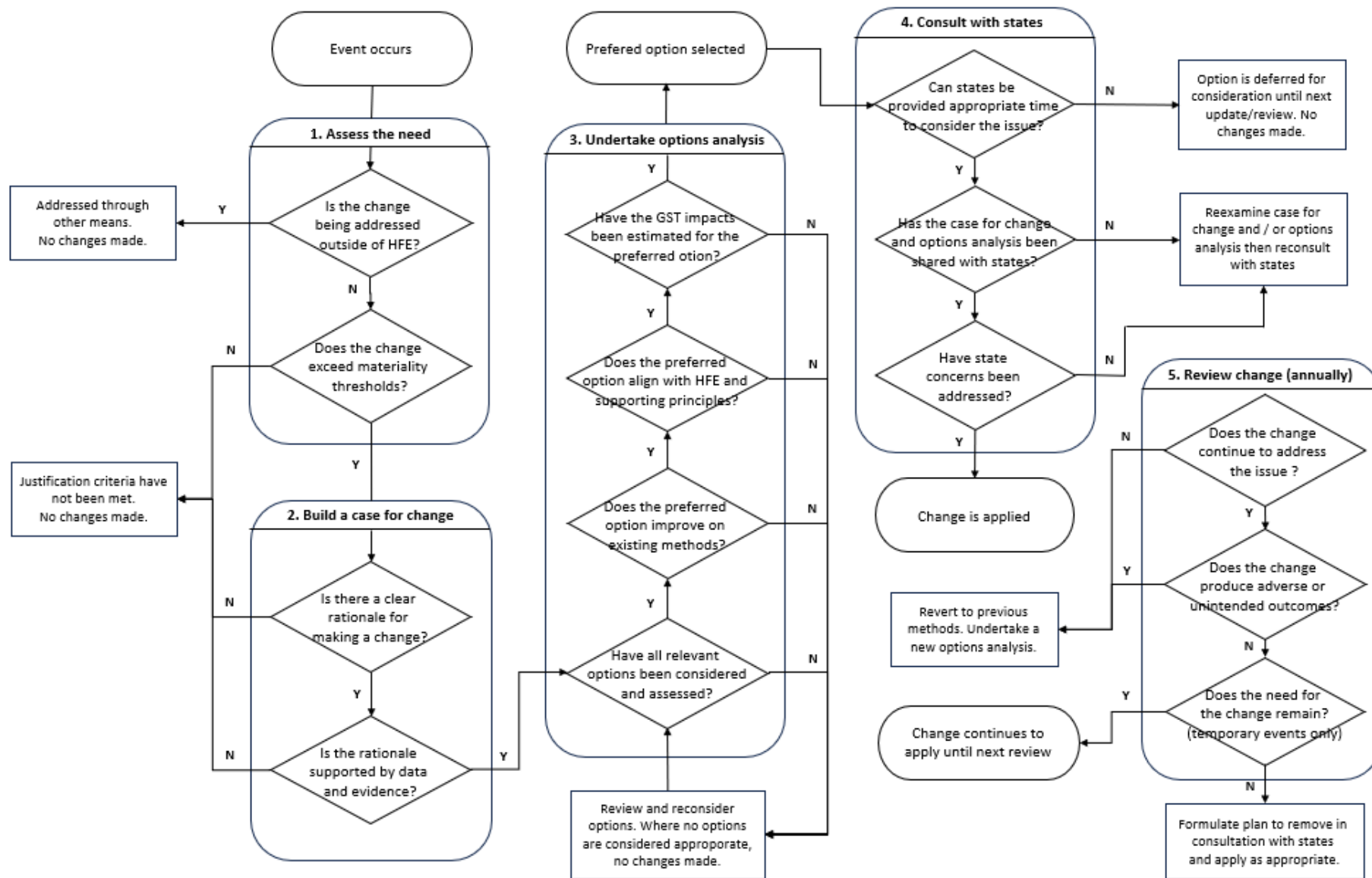
More work by the Commission is considered to be required to scenario test and agree conditions for the operation of any such power, given reliance of States and Territories on relative predictability (through agreed methods) of GST over their forecast periods that do not change between reviews.

***Should the extended flexibility to change assessments between reviews in certain circumstances be operationalised in standing terms of reference for updates?***

Queensland supports that any such flexibility extended to the Commission should be noted in standing terms of reference. The standing terms of reference should note that the Commission would have the capacity to respond to events in extreme circumstances, with the Commission to review and consider whether this should be addressed through the distribution of GST rather than through other means. However, it should also be clearly noted that any consideration of such changes will be undertaken within an agreed rigorous framework and that the consideration of any such change will be subject to greater levels of analysis, scrutiny, consultation and a higher materiality threshold than for other changes.

In practice, the level of consideration and consultation required may mean it is not possible for the Commission to appropriately consider and assess an unexpected event in the annual update immediately following identification of the event. As such, in these circumstances, consideration of the event and assessment of it, including appropriate consultation with states, may require two years to fully consider.

**Appendix A: Indicative process flow and decision tree for method changes for major unexpected events**





**Queensland**  
Government