2025 Commonwealth Grants Commission Methodology Review

Northern Territory response to supplementary Mining revenue consultation paper

NORTHERN TERRITORY
GOVERNMENT

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1. Response to Questions

Q1 Does the 2020 Review method adequately capture all material differences in state capacities to raise coal revenue?

The Territory supports the 2020 Review method on the basis that it reflects what at least one major coal producing state does and is the least policy influenced method.

Q2 Do states support a differential coal assessment based on price bands? Q3 Are the proposed 3 price bands sufficient to appropriate capture differences in state capacities to raise coal revenue?

The Territory does not support setting the method by reference to Queensland's royalty bands on policy neutrality grounds.

Q4 If a price band approach is not feasible, do states support an assessment based on the type of coal?

The Territory does not support this method as it does not reflect "what states do".

Other Issues - Impact of Horizontal Fiscal Equalisation reforms on coal assessment

The Territory notes that method changes to the coal assessment may be uniquely impacted by the 2018 horizontal fiscal equalisation reforms due to New South Wales' position as the benchmark state.

Other Issues – Territory royalty reforms

The Territory advises that from 1 July 2024 any new Territory mines will be subject to a value based royalty, rather than the current net value regime. The rate varies with the level of processing of a mineral. Coal will be subject to a single royalty rate of 7.5%.

2. Supporting considerations

2.1. Proposed changes to the coal method

Presently, there are two major Australian coal-producing states, Queensland (the larger state) and New South Wales. Other states comprised only around 1.4% of national coal production values in 2022-23. Queensland is understood to have higher average coal values per tonne than New South Wales. Queensland imposes a progressive marginal royalty rate based on coal prices per tonne while New South Wales applies a flat rate which varies on the method of extraction, but not the price or type of coal.

The Commission essentially asks whether coal assessments should be determined through a flat rate or a progressive variable rate. The latter is expected to redistribute assessed revenue capacity from New South Wales to Queensland due to Queensland's higher average coal unit value.

The Territory agrees that conceptually the assessment should recognise differences in the quality of mineral bases between New South Wales and Queensland. That is, the Territory agrees that Queensland may be able to extract higher mineral royalties than New South Wales due to its coal having a higher value per tonne. However, the difficulty is policy neutrality and 'what states do', as the relationship between higher coal unit prices and royalty rates exists solely due to a Queensland policy choice. Unlike other tax lines, such as stamp duty or land tax, the Territory does not agree that progressive rates are state-average policy for coal royalties, given only one of the two major producing states have a progressive structure.

Separating the coal assessment into value bands could also decrease policy neutrality for particular price ranges. Queensland is expected to produce a larger share of high-value coal, meaning the royalty rate for

the top value band would be heavily influenced by Queensland policies. In contrast, the current flat rate is averaged between two large states across all coal production, which is less dominated by either New South Wales or Queensland's policies individually.

As set out in the Territory's submissions on fiscal equalisation and supporting principles, and on mining, the Territory considers that policy neutrality is secondary to an accurate calculation of the equalisation task and may be set aside in some circumstances, such as if there is only one producing state. However, the trade-off between policy neutrality and accuracy is difficult to justify in the coal context as the current method already reflects what one of the two major producing states does, which is to impose a flat rate, and a flat rate is also more policy neutral than the proposed new method.

For these reasons, the Territory prefers the current method than a progressive rate for coal.

2.2. Impact of Horizontal Fiscal Equalisation reforms on coal assessment

The Territory observes that the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of the GST) Act 2018* reforms (the 'HFE reforms') appear uniquely relevant to the coal assessment. The Territory notes the below insofar as it relates to coal methods in the context of the HFE reforms, but is not an examination of the HFE reforms themselves.

As the Commission is aware, under the HFE reforms, states cannot be fiscally stronger than the stronger of New South Wales or Victoria, currently New South Wales. In 2022-23, the most recent year of the three years in the 2024 Update, Queensland had a weaker, but very similar, overall fiscal capacity to New South Wales with an assessed relativity difference of only 0.01971.

Mining, and specifically coal, is the dominant contributor to Queensland's fiscal strength, as Queensland otherwise has lower per capita assessed revenue capacity than New South Wales in every category except motor vehicles, and higher assessed expenses in all categories except urban transport.

In these circumstances, method changes which redistribute coal revenue capacity from New South Wales to Queensland may cause Queensland to become the fiscally stronger state. On 2022-23 values, this would only require around a 3% redistribution of New South Wales' coal revenue capacity to Queensland.

If Queensland were to become overall fiscally stronger than New South Wales, the HFE reforms would effectively cap Queensland's coal assessment and redistribute excess capacity to other states (excluding Western Australia) based on population shares. In contrast, the HFE reforms do not cap New South Wales' coal capacity because it is the benchmark state. This leads to a biased category where method changes may not be allowed to freely redistribute coal revenue from New South Wales to Queensland, but are free to do so in the other direction.

This creates a unique and unprecedented issue that method changes intended to improve the accuracy of the coal assessment by distributing revenue from New South Wales to Queensland could instead effectively reduce the whole coal category, leading to a less accurate assessment by redistributing coal revenue to non-coal producing states.

2.3. Territory royalty regime changes

The Territory provides an update on its royalty regime for visibility of major reforms introduced to the Territory Parliament in March 2024. These reforms do not require any change to Commission methods.

For mines which commenced prior to 1 July 2024, the Territory continues to impose a single royalty rate for most mining based on the net value of a mine and mineral, subject to a minimum. Net value is a function of the mineral's value and the cost of extraction, so varies for each mine site.

From 1 July 2024, new mines in the Territory will be instead subject to a value-based royalty regime. This will apply a tiered royalty rate of 2.5% - 7.5%, with some additional deductions such as for freight costs for remote mines. This royalty rate is designed to vary with the level of processing for the mineral.

The new regime includes a schedule which sets out the expected royalty rate for each mineral and mineral type. The Territory refers the Commission to the *Mineral Royalties Bill 2024* as reflecting Territory policy for new mines. Coal is subject to a single rate of 7.5%, although there are no active coal projects in operation or development.