

**From:** Robbie Meddick  
**Sent:** Monday, 17 November 2014 6:02 PM  
**To:** Tim Carlton; Colours; Secretary Email  
**Cc:** Stephanie Eggins; Peter Johnson; Warwick Agnew  
**Subject:** RE: Issues from HoTs discussions [SEC=UNCLASSIFIED]

Dear Tim

Apologies this has come a little late, but please see below Queensland's comments on the 'contemporaneity' matter. Happy to discuss further.

### **Contemporaneity – Queensland's comments on WA proposal**

Western Australia has raised concerns over the degree of revenue volatility created by lagged assessments, and is suggesting implementing HFE without lags. Queensland broadly shares WA's concerns about revenue volatility, and we support contemporaneity, but this should not be at the cost of simple, reliable and robust assessments with stable outcomes. At this stage Queensland is not convinced that a fully contemporaneous approach would be practical, particularly in the time remaining for the 2015 Review. Such an approach would need to rely on projections of important data, with revisions made in following years after actual data becomes available. It is also unclear whether it would be an improvement on the current approach - it may not be worthwhile to implement a fully contemporaneous assessment where significant revisions are required each year to offset inaccurate projections.

Under a fully contemporaneous approach, it would also be necessary to develop a methodology for creating forecasts for relativity purposes. States' own forecasts are likely to rely on different assumptions and methodologies which may make them unsuitable for use in the Commission's methodology. Developing a methodology for producing reasonable and consistent forecasts of the data required for the Commission's assessments would be a major new area of work. It is also possible that forecasting the data required for fully contemporaneous equalisation is not practical with the current level of complexity in the Commission's assessments. If full contemporaneity is to be attempted, the Commission may need to develop assessment methods that are simpler and broader, which may be better suited to the forecasting of key parameters.

It would not be practical to attempt this in the time remaining for the 2015 Review. If a fully contemporaneous method is to be implemented, this should form part of consideration in a future review. The issue of whether fully contemporaneous assessments are desirable also raises the larger question of what HFE is intended to achieve. While a fully contemporaneous assessment would assist in reducing revenue volatility, it would also be less accurate (being based on projections) and less predictable. In past reviews, the Commission have alternated between three and five year averaging of relativities in attempts to strike a balance between these issues. A broader discussion on the relative importance of contemporaneity in the implementation of HFE would need to be undertaken prior to the Commission pursuing a more contemporaneous methodology, potentially in a future review.

Regards

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