

2020–21 Annual Report

Financial Provisioning Scheme

FINANCIAL PROVISIONING SCHEME



Queensland
Government

Queensland Treasury

Purpose of this report

The report forms part of the Financial Provisioning Scheme's corporate governance framework and fulfils the Scheme Manager's obligation under section 83B of the *Mineral and Energy Resources (Financial Provisioning) Act 2018* (the Act) to provide the Minister (Treasurer) with an annual report on the administration of the Act and the Financial Provisioning Scheme within 3 months of the end of financial year.

© The State of Queensland (Queensland Treasury) 2021

Copyright

This publication is protected by the *Copyright Act 1968*

Licence

This work is licensed under a Creative Commons Attribution-Non Commercial No Derivatives 4.0 International License. To view this licence, visit <https://creativecommons.org/licenses/by-nc-nd/4.0/>



You are free to use this work in accordance with the licence terms. For permissions beyond the scope of this licence, contact intelproperty@treasury.qld.gov.au

Attribution

Content from this document should be attributed to:

© The State of Queensland (Queensland Treasury)



Translating and interpreting assistance

The Queensland Government is committed to providing accessible services to Queenslanders from all cultural and linguistic backgrounds. If you have difficulty in understanding this publication, you can contact us on telephone (07) 3035 3503 and we will arrange an interpreter to effectively communicate the report to you.

Contents

1.	Foreword	3
2.	Scheme Manager's overview	4
	Introduction	4
	Transition overview.....	5
	2020–21 Financial Year in Detail.....	6
	Observations on Financial Provisioning Scheme Risk Outcomes	7
	Looking Forward	8
	System and Process Integrity	9
3.	Financial Provisioning Fund financial report	10
	Scheme Manager statement.....	10
	Financial Provisioning Fund as at 30 June 2021 ¹	10
4.	Financial Provisioning Surety	11
	Surety held at 30 June 2021	11
	Claims against surety	11
5.	Financial Provisioning Fund planned expenditure	12
6.	Financial Provisioning Scheme Advisory Committee	13
7.	Legislative Disclosures	13
	Mineral and Energy Resources (Financial Provisioning) Act 2018	13
	Application of other legislation	14
	Governance	14
8.	Appendix.....	14

1 Foreword

The 2020–21 financial year represents the second full year of operation of the Financial Provisioning Scheme (the Scheme). With more than two-thirds of the initial transition period complete, the Scheme is operating well and achieving its objectives in an efficient and prudent manner. It is also providing industry with clarity of its obligations to assure economic activity is not unduly impacted and long-term sustainability is protected.

With the heightened global uncertainty arising from COVID-19 and an accelerated rate of change in the world's consumption pattern for resources, now more than ever Queensland needs a world leading regulation to facilitate sustainable development and rehabilitation activity throughout the energy and resources sectors.

The Scheme is clearly playing its role in this regard and now manages an aggregate rehabilitation cost across all resources environmental authorities and small scale mines in Queensland of approximately \$11 billion. The early success has seen the Scheme fielding an increasing number of inquiries from Australian and overseas jurisdictions on the Scheme's operation and application to other jurisdictions.

The Scheme Manager, as an independent statutory appointment, is accountable for decisions made under the Scheme. Queensland Treasury provides support to the Scheme Manager through the provision of dedicated employees and administrative services. As Under Treasurer, I am kept informed of stakeholder feedback in respect of the Scheme and its operation. Overwhelmingly it has been positive, both regarding the Scheme's processes and the customer focused approach of its team of officers. We also know the Scheme needs to stay connected with all stakeholders and it is pleasing to see the high level of interaction and insight gathered from the energy and resources sector including via the Financial Provisioning Scheme Advisory Committee. This is a testament to the leadership of the Scheme Manager, Murray Smith, his team and the ongoing interdepartmental collaboration that characterised the design and establishment of the Scheme and now supports its successful operation.

As detailed in the following pages, the Scheme is meeting expectations for this early stage of its operation. I commend the 2020–21 Financial Provisioning Scheme Annual Report to you.



Leon Allen
Under Treasurer

2 Scheme Manager's overview

Introduction

The Financial Provisioning Scheme (the Scheme) exists to manage the risk of resource sector holders of an environmental authority (EA) or small scale mining tenure failing to meet their rehabilitation obligations. As at 30 June 2021, the aggregate value of the estimated rehabilitation cost (ERC) associated with the state's 4,754 EAs and small scale mining tenures stood at approximately \$10.882 billion.

The operation of the Scheme is governed by the *Mineral and Energy Resources (Financial Provisioning) Act 2018* (the Act) while the obligations of EA holders are subject to the relevant provisions of the *Environmental Protection Act 1994*.

Under the Scheme, all EAs and small scale mining tenures with an ERC of less than \$100,000 are required to provide surety equal to the ERC value, while all EAs with at least \$100,000 in ERC are being transitioned into the risk category allocation assessment process defined in the Act.

Based on the Scheme Manager's decision arising from the risk category allocation process, holders will be required to either provide a contribution to the Financial Provisioning Fund (the Fund) for a Moderate, Low or Very Low risk category allocation or, where a High risk allocation is made, surety equal to the ERC value for the EA. Where the entity assessed for EAs holds an aggregate value of \$450 million in ERC across its related EAs, once the \$450 million threshold is reached, surety will be required for all amounts above the threshold, regardless of the assigned risk category. All assessed EAs are charged an assessment fee and the risk category allocation is reassessed annually.

The Scheme matured significantly throughout the 2020–21 financial year. EAs continued to be transitioned into the risk category allocation process for initial decisions and, for the first time, annual risk category allocations were completed for EAs that had been transitioned and risk assessed in the prior financial year.

Activity levels will continue to increase as the transition of all assessable EAs is completed by 31 March 2022 target date and annual assessments cumulatively grow. Pleasingly, the Scheme's resources managed to absorb the increase in workload attributable to annual reviews through continued efforts to drive efficiency and productivity while not sacrificing the robustness of assessments. The industry, the Scheme's employees and advisors, and colleagues in the Department of Environment and Science and Department of Resources have all played their part in this achievement.

It is acknowledged that the introduction of the Scheme has impacted holders in a range of ways. Some have obtained the advantage of providing a contribution to the Fund and no longer being required to provide full surety. This enabled them to reduce balance sheet liabilities and/or access cash previously held to back surety instruments. Some have incurred higher costs given their obligation to contribute to the Fund relative to the cost of their prior surety arrangements. Others have been largely unaffected.

Notwithstanding this spectrum of outcomes, the Scheme has worked hard to ensure all holders are provided with as much context and clarity on their specific situation as possible. Industry, for their part, have been similarly open, engaged and proactive in working with the Scheme to ensure its intent is achieved, regardless of the effect it may have on their business. It must be noted that a minority of EA holders have failed to respond to the Scheme requests for information in breach of the Act. While some grace has been afforded in respect to these breaches since the commencement of the Scheme, this window is rapidly closing. Penalty points do apply within the Act for a failure to respond to information requests.

The effectiveness of the Scheme's engagement with industry is illustrated by the fact that there have been no judicial reviews initiated since the Scheme commencement.

With a net balance at 30 June 2021 of \$61.9 million, the Fund continues to grow in line with expectations. To date, no claims had been made on the Fund.

Surety to the value of \$6.751 billion was held as at 30 June 2021, down from \$7.036 billion as at 30 June 2020. This decrease reflects the net effect of surety being released for EAs once a Fund contribution is received or as an ERC value decreases. The decrease has been partially offset by increases in ERC for some EAs and movements from providing a contribution to requiring surety.

The Scheme is served by a small but dedicated team of Queensland Treasury officers, who continue to provide excellent support to the Scheme Manager and stakeholders at all levels. The team's strong focus on serving the needs of stakeholders is evidenced by 93 per cent of all customer survey responses providing positive feedback on the team's service. Again, to the team, I say a resounding thank you.

Equally, the Scheme continues to benefit from the professionalism and expertise of the Risk Advisor Consortium (KPMG, Australia Ratings and Advisian) that delivers rigorous, robust advice and excellent service. They are integral to the execution of the Scheme and the extent to which it is delivering upon its objectives. Finally, I wish to recognise the Queensland Treasury State Actuary and Queensland Treasury Corporation's Principal, Client Division for their ongoing counsel and contribution.

Transition overview

The Scheme commenced on 1 April 2019 with 371 EAs (having an ERC of at least \$100,000) identified for transition under the Act. Collectively, the 371 EAs had an aggregate ERC of approximately \$8.306 billion.

The task of transitioning assessable EAs is not static. New EAs have commenced with an ERC above the \$100,000 threshold. Some have had their ERC reduce below \$100,000, while others have been surrendered. Some have been amalgamated or de-amalgamated.

As at 30 June 2021, there were 377 EAs assessable under the Act with an aggregate ERC value of \$10.860 billion, an increase of 31 per cent since commencement. While the net increase of 6 assessable EAs has contributed to the increase, most increases are attributable to application of the new ERC calculator, discontinuation of financial assurance discounts and increased disturbance from operations. There has been some reductions offsetting ERC growth as rehabilitation works continue to be undertaken.

Also, 287 transition notices under section 91 of the Act had been issued since commencement of Scheme operations. This represents 77 per cent of EAs against the original target and 76 per cent of the currently identified assessable EAs. There is a high degree of confidence that 100 per cent of assessable EAs will be transitioned into the assessment process by 31 March 2022.

Of the 287 EAs transitioned into the assessment process, 231 have a current in-force risk category allocation. These allocations were made under the Act through section 31 Initial Risk Category Allocation, section 41 Annual Risk Category Allocation or section 36 Changed Holder Allocation.

The variance of 56 EAs that have been transitioned into the assessment process but did not have an in-force risk category allocation is due to a variety of reasons including that their risk assessment process was in progress as at 30 June or that since transition, the EA been cancelled, surrendered, amalgamated or had their ERC fall below \$100,000. Within the 231 EAs with in-force risk category allocations, there are new EAs with an ERC of at least \$100,000 (consisting of new permits granted or created on de-amalgamations) and existing EAs that had their ERC increase to above \$100,000.

2020–21 financial year in detail

The 2019–20 processes are summarised for comparative reference. In 2019–20, 152 section 91 Transition notices were issued, of which 111 EAs received a section 31 Initial Risk Category Allocation notice. The balance of 41 EAs were in progress at 30 June 2020. There were no section 41 Annual Risk Category Allocation notices issued, nor changed holder or amalgamated EA assessments completed.

In 2020–21, 271 requests for information were issued including 135 section 91 Transition notices and 136 section 44 requests for information. At 30 June 2021, 46 assessments were still in progress.

A total of 277 risk assessments were completed during the financial year including:

- 152 section 31 Initial Risk Category Allocation notices (including one amalgamation)
- 5 section 36 Changed Holder Risk Category Allocation notices
- 120 section 41 Annual Review Risk Category Allocation notices.

Of the 120 section 41 Annual Risk Category Allocation notices, 119 were the first time the EAs were reviewed since their initial risk category allocation. One EA was annually reviewed a second time on 29 June 2021.

Learnings from the first 12 months of operations were incorporated into 2020–21 processes. The most significant learnings pertained to the selection of an entity to be assessed for an EA.

Determination of an assessed entity is informed by the Act and associated Scheme guidelines and information sheets. Of note, Guideline 1 Forming the Scheme Manager’s Opinion and Risk Category Allocation Information Sheet 1 set out the following basic rules:

- 2.1.1 The entity selected should be the holder that is the operator of the resource project, provided that the holder holds a share of not less than 20 per cent in the resource tenure or tenures to which the authority relates
- 2.1.2 the Scheme Manager should consider the financial soundness of a parent corporation that is an Australian company in priority to a parent corporation that is a foreign company.

The Act defines a parent corporation, as either:

- a corporation of which the holder is a subsidiary within the meaning of section 46 of the *Corporations Act 2001*
- a corporation that controls the holder within the meaning of section 50AA of the *Corporations Act 2001*.

Notwithstanding these basic rules, the Act, Scheme guidelines and Information Sheets allow scope for the Scheme Manager to use discretion in deciding the entity to be assessed. In the first 12 months of operation, there were instances where this discretion was applied such that some non-controlling shareholders were selected as the entity for financial soundness assessment purposes.

Use of the Scheme Manager’s discretion mainly related to joint venture structures where the entity selected to be assessed held either a significant, equal or majority share, albeit non-controlling interest in the holder. As the complexity of various holding and ownership structures presented themselves, further counsel was sought on the recourse of the state in the event of a holder failing to meet its environmental rehabilitation obligations.

Advice emphasised the significance of control as being that point at where recourse is most probable, notwithstanding obligations contained in the *Environmental Protection Act 1994* for all EA holders (and consequently their shareholders). Based on this advice, subsequent determination of an assessed entity has prioritised the basic rules above. There have been a few instances where this tighter application of the basic rules has contributed to changes in risk assessment outcomes for individual EA holders between their section 31 Initial Risk Category Allocation and their first section 41 Annual Review Risk Category Allocation.

Observations on Financial Provisioning Scheme risk outcomes

With 231 in-force EA risk category decisions, it has been possible to undertake a detailed and meaningful review of the state's rehabilitation risk profile.

Three main observations emerge from this review.

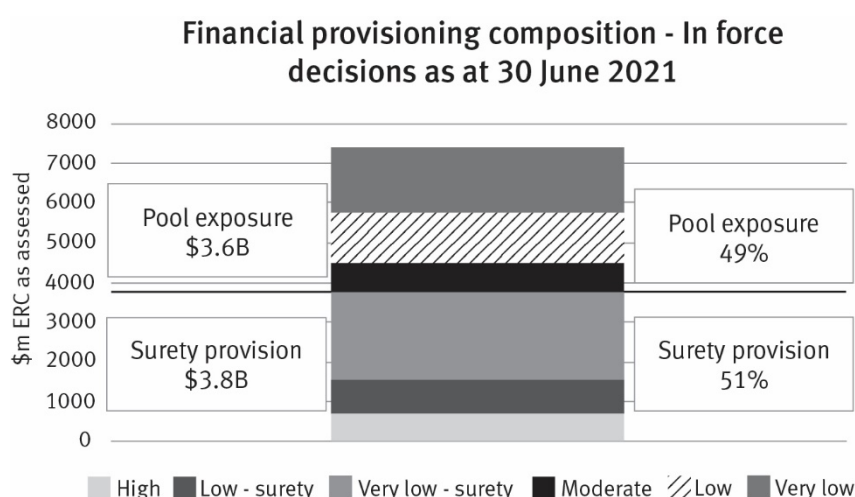
1. The state's resource EAs and ERC exposure is substantially held (at this time) by investment grade equivalent entities of a relatively low probability of financial default.
2. The design and operation of the Scheme is aided by the existence of a threshold cap on exposure to any single entity's rehabilitation cost. This cap currently sits at \$450 million.
3. While the Fund balance, particularly in early years, will be modest relative to absolute ERC exposure, most of that exposure has a quite low probability of incurring a claim. This does not suggest that claims will not eventuate, but that the EAs with the highest likelihood of becoming a claim against the Fund account for only a small ERC value.

Data analysis that support the observations

The 231 in-force EAs had an aggregate ERC of \$7.384 billion (as at the time they were assessed). The composition of risk category allocations for those EAs is as follows and shown in Figure 1 below.

- 74 EAs with an aggregate ERC of \$700 million were allocated to the High risk and are required to be provisioned by surety instruments equal to the ERC value (no claim risk to the Fund).
- 12 EAs with an aggregate ERC of \$774 million were allocated to Low risk yet provide surety as their assessed entity's aggregate ERC exceeded the \$450 million threshold (no claim risk to the Fund).
- 10 EAs with an aggregate ERC of \$2.289 billion were allocated to Very Low risk yet provide surety as their assessed entity's aggregate ERC exceeded the \$450 million threshold (no claim risk to the Fund).
- 31 EAs with an aggregate ERC of \$711 million were allocated to Moderate risk and are provisioned by an annual contribution to the Fund at a rate calculated at 2.75 per cent of their ERC value.
- 76 EAs with an aggregate ERC of \$1.295 billion were allocated to Low risk and are provisioned by an annual contribution to the Fund at 1.0 per cent of their ERC value.
- 29 EAs with an aggregate ERC of \$1.615 billion were allocated to Very Low risk and are provisioned by an annual contribution to the Fund at 0.5 per cent of their ERC value.

Figure 1: Financial provisioning and risk category allocations as at 30 June 2021



As shown by the above graph, the total exposure of the Fund as at 30 June 2021 was \$3.621 billion or 49 per cent of the aggregate ERC for assessed EAs. The remaining \$3.763 billion, or 51 per cent of assessed ERC, is provisioned by surety with no potential claim impact on the Fund.

Of the \$3.621 billion in ERC risk provisioned by contributions to the Fund, 80 per cent pertains to EAs in the very low or low risk categories. Typically, these EAs are (ultimately) held by entities with significant financial strength, extensive diversification of geographic location, operations and commodities. These EAs also have extensive remaining economic life resources and/or facilities (for example, pipeline or gas processing facilities) that are likely to be operational for decades.

While there is a possibility that an EA holder categorised at Very Low or Low may fail to meet their environmental obligations, the likelihood of such, is low over any time defined period. Most of the entities with EAs assessed at either Very Low or Low risk are generally equivalent to investment grade organisations.

While holders allocated to Moderate do present a higher probability of failure to meet their environmental obligations, they are typically sound entities that may be smaller in aggregate size with more limited diversification. Indeed, they have not been assessed at high risk. Across the 31 EAs allocated to Moderate, there is a spectrum of risk composition with a number of factors mitigating exposures. Only a portion of this exposure may be classified as a 'most likely' probability to eventuate in a claim on the Fund.

With regard to EAs yet to be transitioned, a large number are held by entities that have already been risk assessed. As such, it is not expected that they will present a materially different profile to the above.

Looking forward

As required under the Act and identified above, the Scheme is on track to transition all assessable EAs into the risk category allocation assessment process by 31 March 2022. Completion of the transition will represent a significant milestone in the operation of the Scheme.

Two other near term milestones are also pertinent – the potential introduction of a revised Resource Project Characteristics Assessment (RPCA) at the end of the transition in period and the first Actuarial Review.

RPCA Phase II

The Scheme's risk assessment process centres on financial soundness of the holder (or parent thereof) and the nature of the EA activity. The EA activity analysis is captured through a RPCA which is undertaken when an EA is classified as being 'in-production' with at least some remaining economic life. The RPCA process examines the strength of the project (as inferred by the length of its remaining economic life), the amount of certified rehabilitation completed and the compliance record of the holder/assessed entity. The majority of the RPCA assessment weight is in the project strength measure.

When the Scheme commenced, it was recognised that the RPCA process used in risk assessments may be refined at the end of the Scheme's first 3 years of operation and that an RPCA Phase II methodology might be employed.

In examining the impact of the RPCA on risk outcomes, experience has shown that the RPCA altered the risk category allocation in only a minority of instances compared to if the financial soundness assessment was considered. In most instances where the RPCA impacted the risk category allocation, the remaining economic life of the resource project was strong enough to determine a risk category outcome that was lower than if only a financial soundness assessment had been undertaken. This outcome is consistent with the Scheme intent and design – the risk that rehabilitation will fall to the Fund (or ultimately the state) is inherently lower for an EA with a resource of strength likely to be bought by an alternative holder should the current holder fail.

The current RPCA is effectively delivering its intent with no unreasonable outcomes. It ensures risk outcomes reflect the differentiated advantages of individual EAs without unduly transferring risk to the Fund or industry.

Cost curve analysis, assigning overriding risk factors to specific commodity types (e.g. a thermal coal mine may be less likely to sell than a coking coal mine), end market assessment (limited end buyers in number or geography) and the potential for macro sector trends either advantageous or disadvantageous would all have imperfections and inefficiencies to the current RPCA. While it is not without limitations, no more effective RPCA Phase II alternative has been identified.

It is my view as Scheme Manager that there is no pressing need to modify the RPCA at the end of the transition period. This matter will continue to be monitored and assessed throughout the life of the Scheme and representations from all stakeholders on this subject are welcomed and will be considered.

Actuarial review

The Act requires an actuarial review to be undertaken 5 years from commencement of the Scheme and every 3 years thereafter.

A fundamental element of the Scheme is the rate of contribution applied to each of the risk categories. The current rates of 0.5 per cent for Very Low, 1.0 per cent for Low and 2.75 per cent for Moderate were derived from extensive actuarial modelling and assessment of the Fund sustainability under a range of scenarios.

The Act has a direct financial impact on EA holders through either provision of a contribution to the Fund or incurring financing costs and conditions for provision of a bank guarantee (or other surety). It is not the intent or design of the Scheme to deliver any individual EA holder a cheaper cost of provisioning outcome rather, it is to establish a sustainable Fund to meet the cost of an EA holder failing to meet their obligations. Most EA holders have accepted and indicated support for this position during consultation. However, I acknowledge that some holders have experienced a significant increase in their individual provisioning costs.

Regular actuarial reviews will ensure the pricing points within the Scheme continue to allow for a robust and sustainable Financial Provisioning Fund without seeing them at a level that unduly impinges economic activity.

System and process integrity

The Scheme is underpinned by a bespoke Financial Assurance Information Registry (FAIR) application in Appian software. FAIR integrates with information technology systems owned by the Department of Environment and Science, the Department of Resources (MyMinesOnline) and Queensland Treasury. These integration points require strong governance, system and process capabilities and practices.

As operation of the Scheme has matured, so too has the robustness of the FAIR application. Internal and external audit current year observations and prior recommendations have been addressed and closed out. Accordingly, resources and costs associated with system development and enhancement have been phased out through the year to the point where 2021–22 financial year ongoing costs will reflect minor fixes, user enhancements and underlying application licence and service costs. A high degree of reliance can be placed in the operation of the Scheme for data integrity, fraud prevention and cyber security.

In total, 1102 tasks were processed through FAIR in the 2020–21 financial year as presented in Table 1 below (noting the 23 EA amalgamations reduced to 12 new EAs and the 8 de-amalgamations resulted in 16 EAs).

Table 1: FAIR tasks by process 2020–21 financial year

Scheme processes 2020–21	Total *
Risk assessments (>\$100,000 ERC)	277
Environmental authority surrenders	113
Environmental authorities cancelled	9
Amendments to ERC	185
Surety claims processed	2
New environmental authorities	213
Transfers of environmental authorities	272
Amalgamation of existing authorities	23
De-amalgamation of authorities	8

3 Financial Provisioning Fund financial report

Scheme Manager statement

The Financial Provisioning Fund financial report is prepared on a cash flow basis in accordance with the Financial Provisioning Scheme Annual Report Framework policy. The financial report reflects the financial position of the Financial Provisioning Fund based on regulatory receipts and payments categories.

In my opinion, the Financial Provisioning Fund financial report below presents fairly the transactions of the Fund for the period 1 July 2020 to 30 June 2021, and the balance of the Fund as at 30 June 2021.



Murray Smith
Scheme Manager
26 August 2021

Financial Provisioning Fund as at 30 June 2021¹

	Note	2021 \$,000	2020 \$,000
Opening Fund balance		19,860	134
Fund cash inflows			
Investment earnings			
On Fund investment	2	132	–
On cash surety	2, 3	458	688
Contributions	4	42,414	19,365
Assessment fees	4	1,702	732
Total Fund cash inflows		44,706	20,784
Fund cash outflows			
Administration costs	5	–2,692	–1,059
Total Fund cash outflows		–2,692	–1,059
Net Fund cash position for the period		42,014	19,726
Fund balance at 30 June		61,874	19,860

Notes:

1. The Financial Provisioning Fund statement has been prepared on a cash basis as at 30 June 2021.
2. Financial Provisioning Fund investment commenced in the 2020–21 period. Investments of \$46.132 million are in cash equivalent portfolios redeemable on demand with earnings reinvested, therefore they are included in the Fund balance. See Note 5 of the Queensland Treasury 2020-21 Financial Statements showing aggregate Financial Provisioning interest at \$0.588 million.
3. Decrease in cash surety interest earnings is due to market interest rate decreases.
4. Increase in contributions and assessment fees is a result of the increase in environmental authorities transitioned into the risk category allocation process. The variance to FPS Fund contributions (\$42.9 million) and assessment fees (\$1.8 million) disclosed in Note 4 of the Queensland Treasury 2020-21 Financial Statements is due to the timing of invoices being paid.
5. Increased administration costs applied to the Financial Provisioning Fund is due to the transition of the Financial Provisioning Scheme to be self-funded by the 2022-23 financial year.
6. Queensland Treasury 2020-21 Financial Statements note 13 discloses the Fund cash at bank as \$15.6 million and note 15 investment as \$46.1 million – total Fund balance of \$61.7 million. The variance of \$0.2 million to the FPS report is due to the timing of deposits cleared into the FAIR system.

Please see the Appendix to this report for the Financial Provisioning Fund audit statement.

4 Financial provisioning surety

Surety held at 30 June 2021

Under the Act, surety can be provided as bank guarantees, insurance bonds or cash.

Since 30 June 2019, surety held has decreased by 19.2 per cent (\$1.604 billion) from \$8.355 billion to \$6.751 billion at 30 June 2021. This decrease is mainly due to EAs providing contributions to the Financial Provisioning Fund instead of surety. Also, \$0.276 billion in notices to provide surety had been issued to environmental authority holders for which the surety was yet to be received at reporting date.

The trend in surety being provided since 30 June 2019 has seen a decrease of 35.6 per cent in bank guarantees, an increase of 1,529.6 per cent in insurance bonds and a 50 per cent increase in cash surety. This reflects the increased uptake of market options available to industry under the Scheme.

Surety	30/06/2019 \$,000	30/06/2020 \$,000	30/06/2021 \$,000	Annual Change \$,000	Change %
Bank guarantee	8,217,753	6,330,973	5,289,628	-1,041,345	-16%
Insurance bonds	84,823	643,533	1,382,239	738,705	115%
Cash	52,554	61,034	78,993	17,959	29%
Total surety	8,355,130	7,035,540	6,750,860	- 284,681	-4%

Note: For the related 30 June 2021 Queensland Treasury annual report financial statement disclosures please refer to:

- Note 2(b) for the Financial Provisioning Scheme.
- Note 13 for cash surety and 19 for the equal Liability.
- Note 23 for bank guarantee and insurance bond surety disclosure and contingency reporting.

Claims against surety

During the 2020–21 financial year, claims of \$2.2 million were properly made against surety held.

In July 2021, the Scheme Manager became aware that claims may be made against surety to around the value of \$0.7 million. The timing and amount of the claims are uncertain at reporting date.

5 Financial Provisioning Fund planned expenditure

The Financial Provisioning Fund planned expenditure is based on estimates and may differ to actual expenditure for the period. Due to the uncertainty of timing and actual costs incurred in the period, the planned expenditure is not audited.

To optimise the delivery of the financial assurance reforms across departments, the government provided funding of \$39.462 million in its 2017–18 Queensland Budget. This included operational expenditure of \$12.735 million to ensure the effective establishment of the Financial Provisioning Scheme.

In 2021–22, administration costs will include a grant of \$0.250 million to the Department of Environment and Science for a review of the ERC calculator. This administrative cost recognises the importance of the ERC calculation in managing the financial risks to the state and that the calculation outcome results in a direct financial cost to industry. It is critical that the Financial Provisioning Scheme and industry can place reliance on the calculator's outcomes. The Scheme Manager has required the Department of Environment and Science to consult with industry as part of the review.

The Financial Provisioning Fund administrative costs will increase in 2021–22 as Consolidated Fund budget appropriation decreases. The Scheme will be fully funded by the Financial Provisioning Fund from 1 July 2022.

The Scheme Manager will assess the financial viability of the Fund in the 2021–22 financial year to determine the capacity of the Fund to provide grants for abandoned mines and rehabilitation research in the 2022–23 financial year. This assessment will have regard to any claims experience which may emerge on the Fund. Once a claim is properly made and expenditure is approved by the Scheme Manager, environmental or rehabilitation claim costs will be expensed in the period they are incurred. The amount of such claims, should they arise, will inform assessments of the Fund's capacity to provide grants for abandoned mines and rehabilitation research.

The categories of planned expenditure have been disclosed below to demonstrate the proposed transparency for fund management going forward.

Note 1, 2	2021–22 \$,000	2022–23 \$,000
Abandoned mines grants program	–	–
Research grant program	–	–
Return of Treasurer advances	–	–
Environmental mitigation claims ²	–	–
Rehabilitation program claims ²	–	–
Forecast administration expenditure ¹	3,500	6,100

Notes:

1. The forecast increase in administration expenditure reflects the amount that will be provided from the Financial Provisioning Fund rather than a growth in actual expense to administer the Scheme.
2. No claims have been made against the Financial Provisioning Fund.

6 Financial Provisioning Scheme Advisory Committee

In November 2019, members of the Financial Provisioning Scheme Advisory Committee were appointed under section 83 of the Act. Members include:

- Mrs Helen Dogan, Assistant Under Treasurer as Chair (appointed February 2020)
- Professor Martine Maron
- Dr Carl Grant
- Dr Julie Beeby
- Mr Stephen Smyth
- Mr Richie Ah Mat
- Mr Matthew Paull
- Mr Michael McCabe
- Ms Rhonda Jacobsen

Dr Jo-Anne Everingham retired from the advisory committee in 2021 and approval of a nominee to maintain the diverse representation on the committee is in progress.

The role of the Advisory committee is to give advice:

- to the requesting agency (Department of Environment and Science or Department of Resources) about requests from the Financial Provisioning Fund for:
 - remediation/rehabilitation activities at land on which an abandoned mine exists
 - research that may contribute to the rehabilitation of land on which resource activities have been carried out
- to the Scheme Manager about the operation of the Financial Provisioning Scheme.

During the 2020–21 financial year, the Financial Provisioning Scheme Advisory Committee made significant progress in defining the process for reviewing proposed Scheme funding applications for abandoned mines work and rehabilitation research. The committee will provide advice to the Directors General of the requesting entity on the relative priority of funding requests that may be made to the Scheme Manager. Upon receipt of a request from a Director General of either entity, the Scheme Manager must make available requested funds except where, in the Scheme Manager's opinion, to do so would threaten the financial viability of the Fund. The relative immaturity of the Fund and the long timeframe required to better understand the likely claims experience profile, will necessitate that funding provided by the Fund will be modest and, at best, supplementary to likely funding requirements in both areas. As defined at the outset, the Scheme is not intended to become the primary source of funding for either pre-scheme commencement abandoned mines work or rehabilitation research.

7 Legislative disclosures

Mineral and Energy Resources (Financial Provisioning) Act 2018

Section 73 of the Act requires the first actuarial review to occur 5 years of commencement and every 3 years thereafter. The extended first period allows for completion of transitioning holders into the risk category allocation and time for revenue and expenditure to be more consistent. This will provide the actuary with more reliable information for the review. Once a review has occurred this will be reported on in the relevant annual report (required under section 83B) and include a response to the report by the Scheme Manager.

Section 83B of the Act also requires the Scheme Manager to provide, as part of the annual report, a summary of stakeholder submissions received during the financial year on the effectiveness of the Financial Provisioning Scheme. No stakeholder submissions or residual risk payments were received in the 2020–21 period.

Application of other legislation

Financial Accountability Act 2009

The *Financial Accountability Act 2009* applies to the Scheme Manager. This requires the Scheme Manager to comply with departmental and Queensland public sector financial management and governance policies.

As the Financial Provisioning Fund and Cash Surety accounts are established as departmental accounts, they will be incorporated into Queensland Treasury's financial statements for the reporting period. The Queensland Treasury Annual Report is available from the Queensland Treasury website.

Auditor-General Act 2009

The Financial Provisioning Scheme is audited in accordance with the *Auditor-General Act 2009* through its inclusion in the department's financial statements and by agreement with the Scheme Manager for purposes of reporting on the Financial Provisioning Fund's cash flows for the period.

Australian Accounting Standards

This report is specifically prepared to demonstrate accountability and transparency of the Scheme Manager's administration of the Act. Any financial information has been prepared to inform on the regulatory requirements under the Act and does not comply with Australian Accounting Standards. Where financial information is reported in the department's financial statements, it will be consistent with Australian Accounting Standards.

Governance

Under section 83B of the Act, the Scheme Manager must report to the Treasurer on the operations, financial performance and financial position of the Financial Provisioning Scheme. This occurs on a quarterly basis and additionally for emergent matters. In addition, the Treasurer must be immediately informed if anything occurs that may significantly affect the Financial Provisioning Fund's viability

A key component to the effective delivery of the Financial Provisioning Scheme is the integration of processes between Department of Resources, Department of Environment and Science, and Queensland Treasury. Effective delivery of the integration is managed and overseen through administrative arrangements, including:

- memorandums of understanding between the departments and the Scheme Manager to clarify processes, information sharing and responsibilities
- a steering committee comprising senior executives of each department for reporting to and escalation of unresolved matters.

Part 5 of the Act imposes strict confidentiality requirements on any person with access to information provided to the Scheme Manager. Processes have been put in place to limit the sharing of information across government to that which is required for government business and a training tool has been developed to inform government employees, contractors and consultants, who may have access to confidential information, of their obligations to maintain confidentiality of information provided under the Act.

8 APPENDIX

INDEPENDENT AUDITOR'S REPORT

To the Scheme Manager

Report on the Financial Provisioning Fund

Opinion

I have audited the Financial Provisioning Fund financial report for the period 1 July 2020 to 30 June 2021, identified in section 3 of the Financial Provisioning Scheme's 2020–21 annual report.

In my opinion, in all material respects, the financial report presents fairly the balance of the Financial Provisioning Fund (the Fund) as at 30 June 2021 and the transactions of the Fund for the period 1 July 2020 to 30 June 2021.

Basis of opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – basis of accounting

I draw attention to the Scheme Manager's statement in section 3 of the Financial Provisioning Scheme's 2020–21 annual report which describes the basis of accounting. The Financial Provisioning Fund financial report has been prepared on a cash flow basis for the purpose of fulfilling the Scheme Manager's reporting responsibilities under the *Mineral and Energy Resources (Financial Provisioning) Act 2018*. As a result, the financial report may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Other Information

Other information comprises the information (other than the audited financial report) included in the Financial Provisioning Scheme's 2020–21 annual report.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Scheme Manager for the Financial Provisioning Fund financial report

The Scheme Manager is responsible for the preparation and fair presentation of the Financial Provisioning Fund financial report. The Scheme Manager's responsibility also includes such internal control as the Scheme Manager determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Financial Provisioning Fund financial report

My objectives are to obtain reasonable assurance about whether the Financial Provisioning Fund financial report, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. This is not done for the purpose of expressing an opinion on the effectiveness of the Scheme's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme Manager.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the statement represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Scheme Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Paul Christensen
as delegate of the Auditor-General

8 September 2021

Queensland Audit Office
Brisbane