

Financial assurance framework reform

Financial provisioning scheme assessment process consultation report

Summary

Department of the Premier and Cabinet
Queensland Treasury
Department of Natural Resources and Mines
Department of Environment and Heritage Protection

Background

On 4 May 2017 the Queensland Government released the Financial Assurance Framework Reform discussion paper for public consultation. As part of this process, a financial assurance paper was released, outlining proposed changes to the way the State protects the community from instances in which a resource company does not meet its rehabilitation or environmental management obligations.

On 7 September 2017 the Queensland Government released the Financial Assurance Framework Reform Consultation Report which summarised the results of public consultation on the Financial Assurance Framework Reform discussion paper, outlining the key themes raised during consultation as well as specific issues/concerns raised and responses to each.

As part of the Financial Assurance Framework Reform, a tailored solution is being implemented that assesses resource sites individually based on their financial risk, and uses a range of financial assurance arrangements that appropriately match the risk. For each resource site – or environmental authority (EA) – that meets certain criteria (for instance, its estimated rehabilitation cost is above a certain threshold) is assessed and a Risk Category Allocation is made. This Risk Category Allocation will determine the form of financial assurance the EA holders need to provide to the State.

The Financial Assurance Project Management Office and Queensland Treasury Corporation engaged a consortium of KPMG and Australia Ratings to assist with the design of the risk assessment process.

Purpose

The purpose of this report is to publicly release the KPMG/Australia Ratings Report on the recommended risk assessment process for the Scheme. Consultation was undertaken with selected industry representatives by KPMG/Australia Ratings during their engagement.

Who will be assessed?

The scheme manager will conduct a single risk assessment for each environmental authority (for environment authority holders whose total estimated cost of rehabilitation is at least \$100,000). The proposed assessment process considers financial risk, based on the financial soundness of the EA holder, and resource project risk, based on the likelihood a resource site could be sold to another party in the event its current owner fails.

All holders of an environmental authority are responsible for ensuring compliance with the environmental authority. Therefore:

- (a) where there is a single holder of the environmental authority – the financial risk component will relate to that holder;
- (b) where there is more than one holder – the scheme manager may decide which holder is the Relevant [Entity/EA holder] for the purposes of assessing financial risk.

The Relevant [Entity/EA holder] will generally be the operator of the resource project, provided they have a material direct interest in the relevant resource authority. The holders of the environmental authority may nominate another holder with a direct interest to be the Relevant [Entity/EA holder], but this will be subject to the discretion of the scheme manager.

Once the Relevant Entity/EA holder is determined, where appropriate, the financial risk assessment will be made on that entity's parent entity, including their ultimate parent. Circumstances where it is expected to be appropriate to assess parent entities include where that parent entity is Australian, or operates in similar jurisdiction.

Next Steps

It is intended that the Risk Assessment Process for the Financial Provisioning Scheme will form part of a guideline. The Queensland Government will use the report from KPMG/Australia Ratings and any feedback from stakeholders to develop the draft guideline. It is also intended that the scheme manager will engage an independent assessor to assist in the risk assessment of resource projects and provide advice to the scheme manager in the lead up to and after Scheme commencement (1 July 2018). Input from the independent assessor (once they have been engaged) will also be sought in the development of the draft guideline. It is anticipated that consultation on the draft guideline will occur in Quarter 1 2018.

Feedback on the proposed framework outlined in the report from KPMG/Australia Ratings can be provided via email to the Financial Assurance Project Management Office at financial.assurance@treasury.qld.gov.au.