

# Productivity Commission Inquiry into Horizontal Fiscal Equalisation

*Submission of the Queensland Council of Unions*

## **Introduction**

The Queensland Council of Unions (QCU) is Queensland's peak union body. The QCU represents the majority of Queensland unions which in turn are operating in a broad range of industries and covering various occupational groupings. The number of employees who are members of QCU affiliates is in the order of 250,000. The QCU makes this submission based on the interest of employees in Queensland who have substantial experience with what can go wrong when funding is cut to essential services in our decentralised state.

This submission deals with three primary concepts. Firstly, it provides the cogent reasoning behind our support for the existing system of distribution of revenue raised by the GST. Secondly the submission focuses on the unique characteristics of Queensland which illustrate the need for proper funding. Finally, the submission deals with the fallout from drastic cuts to employment and services that occurred during the Newman Government.

## **Support for the existing system**

The QCU joins with several other organisations in support of the existing system of Horizontal Fiscal Equalisation (HFE). The chorus of support for the existing system raises the question as to why this inquiry is necessary and what motivated it in the first place. The existing system is the highest standard in the OECD by bringing all states to the level of the best state. Alternative propositions that are canvased appear to leave Queensland and therefore Queenslanders worse off. To the QCU this appears to be illogical to even consider changing the existing system.

Recommendation 2.1 in the Productivity Commission's draft report appears to be contemplating a reduction in standards from "full" to "reasonable" equalisation. The QCU supports the Queensland Governments rejection of this notion and does so in the context of rising inequity within Australia. Later in this submission we touch upon low wage growth which has contributed to Australia's rising inequality. In our submission the objective of full equalisation is worth supporting and fighting to retain.

The element of policy neutrality has been rightly identified by the productivity commission's report as an essential aspect of the HFE. The QCU is a firm defender of policy neutrality considering our recent experiences. Further in this submission the nature of Queensland is discussed and it is a question of fact that Queenslanders steadfastly oppose further privatisation and sale of state-owned assets. Unhelpful statements have been made by federal ministers about using federal funding to punish Queensland for its failure to sell assets. In particular, the former Treasurer Joe Hockey presented state premiers with an ultimatum to recycle assets in return for

assistance in funding productive infrastructure (Benson 2014). Such a position being adopted by a federal government is tantamount to blackmail and demonstrates how fundamentally out of touch Mr Hockey was with sentiment towards assets sales in Queensland and possibly other jurisdictions. Moreover, the use of federal funding to promote unpopular policy seeks to undermine the democratic processes at a provincial level in order to spread the agenda of the federal government.

It has been suggested that perverse incentives may exist for state and territory governments to be making decisions based on the impact those decisions will have on their respective share of GST revenue. There is simply no evidence that governments are making such decisions. The suggestion of perverse incentives appears to be a desperate attempt by those who would seek to find something to criticise in a system that is best practice.

The following section of this submission is devoted to some of the features of Queensland that make it so reliant on existing funding arrangements.

### **Nature of Queensland**

As is described in the Queensland Government submission, Queensland is an extremely decentralised state (Queensland Government 2017). In Queensland 48.3 per cent of the population resides in the greater-Brisbane area which is the second smallest percentage of any jurisdiction next to Tasmania. Obviously geographical and population differences between Queensland and Tasmania make those two jurisdictions incomparable with respect to the provision of essential services and infrastructure. South Australia and Western Australia have 77.3 and 78.6 per cent of their population living in the metropolitan area of their capitals (ABS 2017). Decentralisation brings with it an array of challenges particularly for the delivery of public services such as health, education and transport (Queensland Government 2017).

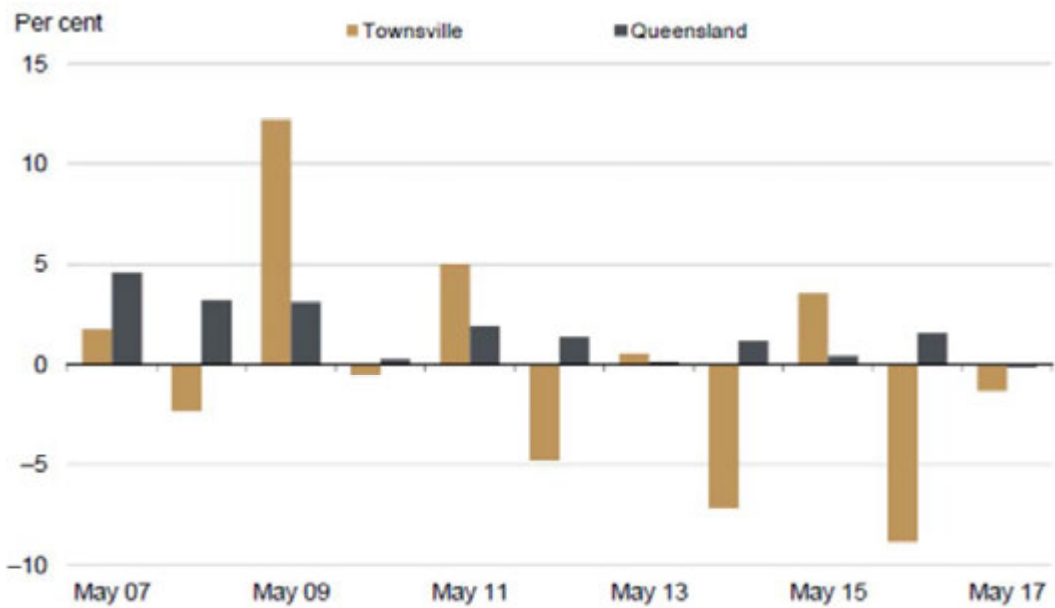
On one scenario, estimates of the potential loss to Queensland from changes to the existing arrangements are in the order of \$1.5 Billion (Queensland Government 2017) which in terms of service delivery equates to the full time equivalent of 13,379 nurses (QNMU 2018). It is needless to say that such a reduction in funding to health services would be catastrophic. Similar grim predictions could be made for other services provided by the Queensland Government including child safety, education and transport. Any reduction in funding to Queensland could be quite lethal for Queenslanders. In addition to the reduction in service delivery, employment opportunities are becoming increasingly limited in regional areas.

The absence of alternative employment prospects will mean that job losses in regional areas will have a worse impact than those in metropolitan areas. The recent experience in Queensland,

whether by cuts to government funding or by other economic downturn, has been that employment has been harder to come by in the regions than it is in the metropolitan area. The experience in Townsville, as a prime example, has demonstrated the precarious nature of regional employment. In addition to the reduction in front line services brought about by the Newman Government, which will be discussed later in this submission, reductions in meat processing due to live export and the closure of the Queensland Nickel plant have added to growing unemployment in Townsville (Oliver 2016).

Figure 1 graphically demonstrates employment (negative) growth in Townsville over recent years and that Townsville is only now starting to recover from the compounding impacts of cuts to services by the Newman Government and structural changes to industry.

**Figure 1 Annual change in employment, Townsville SA4**



*Source Queensland Government Statistician's Office (2017)*

The very sore point of asset sales was previously alluded to in this submission. It is now history that the Bligh and Newman Governments were voted out of office in the most emphatic fashion because of positions they adopted with respect to selling Queensland's public assets (Sansom 2015). The Bligh Government was all but obliterated in the 2012 election as a result of its decision to sell a range of state-owned assets. Then within three years the Newman Government was able to squander the largest majority in the history of the Queensland Parliament. Asset

sales, as part of the ill-fated Strong Choices campaign undertaken by the Newman Government, played a major role in defeat of that Government after one term (Scott 2015). Campbell Newman was the second sitting Premier in Queensland history to lose their seat at a general election. The political significance of maintaining assets in state ownership in Queensland cannot be overstated. Whilst such political considerations may not be the primary focus of the Productivity Commission, it will be assured that any changes to GST funding that are based on failure to recycle assets will be met with the strongest opposition from the community.

A reality of climate change is that natural disasters are increasing. Whilst there is separate commonwealth funding for recovery from natural disasters, Queensland faces significant financial losses from these more frequent events. In 2017 Severe Tropical Cyclone Debbie caused substantial damage to North Queensland where it crossed the coast and caused substantial flooding over other parts of the State (BOM 2017). Debbie was the most damaging cyclone since Cyclone Yasi in 2011 and was estimated to cost the Queensland economy \$2 Billion and wipe \$1.5 Billion from the Queensland Budget (Tapim 2017). Queensland is not the only jurisdiction that faces natural disasters but the other features, such as a decentralised population coupled with a long coast line in tropical waters means that Queensland will have more than its fair share of expensive disasters. It would be catastrophic if state revenue, that has been placed under significant strain from natural disasters over the last decade were further damaged by any reduction in federal funding.

### **Prior experience**

Workers in Queensland have firsthand knowledge of the effects of government spending cuts. The election of the Newman Government in 2012 was immediately and predictably followed by a Commission of Audit (Quiggin 2012). This Commission of Audit was set up with the clearly political purpose of providing justification for savage cuts to government services that the incoming government did not foreshadow in the 2012 election campaign (Scott 2015). Quite to the contrary the then Opposition Leader, Campbell Newman provided a range of assurances that he duly disregarded following the election.

A range of frontline services were cut by the Newman Government that had a significant impact on service delivery (Scott 2015). As has been noted in the Queensland Government submission (2017) a health and educated population is going to be more productive. Many of the frontline services that were cut by the Newman Government were associated with longer term strategies and the impacts of some of those cuts may not have been felt as yet. Other cuts to services however had a more immediate impact. For example, the closure of the Barrett Adolescent

Psychiatric Centre was attributed to at least three suicides of former patients (McLeish K and M McKinnon 2014). Education was also the subject of cuts with the closure of schools, including some in growth areas, and the preparation of TAFE for privatisation led to massive reductions in courses being offered and closure of campuses throughout the state.

Not only did the cuts instituted by Newman Government adversely impact on service delivery, employment outcomes would also suffer. The Newman Government systematically sacked thousands of its own employees starting with every employee on a temporary employment contract. Then followed the large-scale sacking of public servants contrary to the undertakings given by Campbell Newman prior to the 2012 election (Hurst 2012a; Hurst 2012b; Scott 2015). Whilst the Newman Government characterised the massive sackings as voluntary redundancies, the reality was quite different with employees being offered enhanced redundancy packages to “agree” to having their positions made redundant. Even those who did not agree to redundancy were eventually retrenched (Hurst 2012c; QCU 2013). The impact of the Newman Government cuts was not only felt within public sector employment. Estimates of job losses in the private sector include 1.5 jobs lost for every public-sector job (Richardson and Dennis 2010).

The concern remains that any reduction in funding to the Queensland Government that might be resultant from changes to the allocation of revenue from GST could be used by a future government to further curtail the capacity of workers to seek wage increases into the future. This threat of an attack on workers’ rights is not imagined. It is a very real threat that remains well remembered by Queensland workers and their representatives.

Low wage growth has been identified recently as a major problem within the Australian economy (Bishop and Rush 2017; Hutchens 2017, Lowe 2017; Stamford 2018). Whilst declining wage growth is a feature of several developed economies (Dabla Norris et al 2015; Jaumotte and Buitron 2015), it is most apparent in Australia (Jacobs and Rush 2015). The supposed budget emergency was used by the Newman Government to justify a range of restrictions on workers’ rights and balance of bargaining power. These legislative amendments had the impact of:

- Seriously curtailing employees’ rights and ability to collectively bargain;
- Unilaterally removing existing rights and conditions of employment;
- Introducing unworkable and unnecessary processes that have placed imposts on some parties and benefited no one;
- Reducing the capacity for workers to assist in maintaining safer work and workplaces, by limiting their access to independent advice and assistance; and

- Seriously limiting the assistance available for injured workers returning safely to work by reducing the requirement for trained Rehabilitation officers. (QCU 2014; Scott 2015)

## **Conclusion**

This submission is made to the Productivity Commission in order to demonstrate the union movement's support for the Queensland Government and other submissions made in support of existing arrangements. The particular nature of Queensland is such that many Queenslanders particularly those in regional areas rely heavily on public services. Not only would there be a substantial drain on the provision of essential services but employment outcomes in the regions would be again sent plummeting. Moreover, the union movement harbours very real fears of budgetary constraints being used in order to justify further attacks on working people and their rights.

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