

29 January 2018

Ms. Karen Chester
Deputy Chair
Productivity Commission
Horizontal Fiscal Equalisation Inquiry
Locked Bag 2, Collins St East
Melbourne VIC 8003, Australia

Townsville Enterprise Limited submission to the Productivity Commission inquiry into Horizontal Fiscal Equalisation.

Dear Deputy Chair,

Townsville Enterprise Limited welcomes the opportunity to provide a submission to the Productivity Commission Inquiry into Horizontal Fiscal Equalisation.

Townsville Enterprise is the principal economic peak body and regional tourism organisation (RTO) representing Townsville North Queensland, which includes the five Local Government Areas of Townsville, Charters Towers, Hinchinbrook, the Burdekin and Palm Island, and is one of Australia's true regional powerhouses. Townsville Enterprise is the primary engine for economic development, charged with leveraging the region's assets and strengths to drive job creation, growth, infrastructure investment and improve quality of life.

Global economic conditions, structural change in the Australian economy, and population and employment shifts are impacting Australia's regions in different ways. The challenge for governments and regional economies is to build long-term competitiveness so that the nation as a whole can influence and share the benefits of growth. Governments of the day have a fundamental obligation to ensure fair and equitable distribution of wealth across the nation, supporting and contributing to the regeneration and sustainability of regional cities and communities.

The North Queensland region has significant concerns with the reform approaches canvassed by the Productivity Commission (PC) in its draft report which will compromise the ability of Queensland to deliver similar standards of service and living to other States and Territories (States). Such approaches will result in some States becoming fiscally stronger than others, which in turn will result in even greater disparity between the quality of life realised in capital cities versus that of regional Australia. When addressing inequalities of service delivery, particularly for regional communities, the differing circumstances of each State must be considered. For Queensland, its large geographical size, significant indigenous population and decentralised population with many regional and remote communities presents challenges in providing equitable access to services including education, health and transport.

Unless the Commonwealth Government establishes conscious policy that supports a legitimate regional development agenda and 'equitable distribution' of wealth and employment, the nation will run the risk of economic instability or the establishment of a "two speed" economy. In the Australian post mining boom era our country finds itself yet again in the midst of a two-speed economy, this time comprising: (i) NSW and Victoria (driven largely by Sydney and Melbourne); and (ii) the rest of Australia (ROA). The size and relative strength of the NSW and Victorian economies means that economic data presented at the national level is masking weakness throughout the rest of Australia, particularly that of regional centres. Capacity utilisation is high in Australia's two largest cities and demand growth is strong, courtesy of incredibly low interest rates and burgeoning property prices. Without an interventionist approach by government to regional development stimulus the economic divide between southern capitals and regional communities will continue to widen.

Home to the largest population in north Australia (229,035), Townsville has experienced a significant decline in the number of full-time employed personnel from 70, 235 at the heights of the mining and resource boom in 2011 to 66,829 in 2016. (ABS 2016) North Queensland's current employment statistics present a bleak picture with general unemployment close to 10% and youth unemployment climbing above 20% for the majority of the 2017 calendar year. (ABS 2017) The broad objective of macroeconomic and fiscal policy is to contribute to economic and social wellbeing in an equitable and sustainable manner. Because unemployment and underemployment are the main causes of poverty, a key agenda of government is to maintain the economy as close as possible to full employment. This target implies that in developed countries, employment in the formal sector at least keeps up with labour force growth and rural-urban demand.

A federal development agenda that consciously looks beyond its centralised populations and targets regional sustainability is essential to the establishment of a balanced and progressive national economy. Economic prosperity is a key catalyst for population growth and stability, which in itself is an economic stimulant to industry sectors and assists in defraying the costs of infrastructure development.

As the Productivity Commission estimates, if the two reform approaches canvassed – equalising to the second highest State or to the average – were adopted and applied to the 2017-18 GST payments, Queensland's GST revenue would be \$729 million and \$1,588 million lower respectively compared to the current system. Such a reduction in revenue would negatively impact the ability of Queensland to provide similar level of services to the community including ongoing support and investment in regional centres.

North Queensland encourages the Productivity Commission to consider approaches for achieving horizontal fiscal equalisation (HFE) where the redistribution of the GST is not the sole lever. Our region supports the PC's conclusion that an equal per capita approach, as advocated by New South Wales and Western Australia, is not a viable option at present because it would not meet the core equity objectives of HFE having regard to the current structure of the Australian economy.

The communities of North Queensland support the Productivity Commission's recognition that reform of federal financial relations provides an opportunity to improve Commonwealth-State relations and establish a collectively acceptable approach to equitable distribution.

Townsville Enterprise supports genuine engagement by the Commonwealth and States to undertake this important work and achieve a fair fiscal distribution framework on behalf of all Australians. Change however cannot come at the expense of regional communities, as the road to securing self-perpetuating and sustainable growth is yet to be defined.

Your sincerely,

Michael McMillan
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