

Master Builders Association Northern Territory

Submission to the Productivity Commission

Inquiry into Horizontal Fiscal Equalisation (HFE)

27 November 2017

INTRODUCTION

Master Builders NT welcomes the opportunity to make a submission to the Productivity Commissions' Inquiry into Horizontal Fiscal Equalisation (HFE).

We also congratulate the Commission on its decision to conduct a public hearing in Darwin.

Perversely, in an era of so many options for communication, and with the tidal wave of information available today, the average citizen has probably never felt more distant from the major political decisions of our time.

On the surface, matters like HFE can be seen to be subjects of little interest to the average citizen or small business, but it is crucial that national institutions such as the Commission make every effort to engage with the community.

Your recommendations to Government do, and will, affect lives and outcomes right across our country, and in 2017, there is also a social obligation to engage in meaningful ways with the wider community.

We acknowledge the challenge for the Commission of working through the complexity of so many different competing interests around the distribution of the GST pool. Our particular interest in this issue is how it applies to the circumstances in the Northern Territory, but by default, the same issues are relevant right across most of north Australia.

We look forward to discussing those with you.

RECOMMENDATIONS

That the Productivity Commission:

(Service Delivery)

1. acknowledges that a surge in infrastructure development is needed to drive down the cost of service delivery in remote Australia;
2. acknowledges that the combination of an earlier stage of development, thin population bases, and enormous distances, substantially increase the cost of base infrastructure provision in north Australia;
3. agrees that population based distribution of the GST pool can, perversely, lock communities into a situation akin to a poverty trap;
4. agrees that lessening the 'standard' used to judge service provision will just cement in those circumstance, potentially 'giving up on the development challenge of our time'.

(Infrastructure)

5. acknowledges that there is a significant economic infrastructure deficit in remote Australia:
6. acknowledges that many smaller scale investors in the North must fund public infrastructure to develop their projects, lessening the chances of that investment proceeding, and in parallel expanding regional economies;

(Solutions)

That the Productivity Commission considers;

7. whether there should be an additional uplift factor for low population density jurisdictions to accelerate the provision of base infrastructure, designed to lower the cost of service provision over time; and,
8. quarantining a small percentage of the GST pool (ie 2%) to allocate to proposals that complete the utilities spine across Australia (rail, power, energy, water) to improve economic efficiency and build a base for future development.

MASTER BUILDERS NT

Master Builders NT is a member of the Federation of Master Builders organisations located in each State and Territory in Australia. We are one of Australia's oldest industry representative Federations with a proven track record of advocacy at both the national and local levels.

The Master Builders movement has a proud record of remaining committed to making a positive and constructive contribution to effective public policy.

Master Builders NT represents the full suite of employer businesses operating in the building and construction industry in the Northern Territory. The scale of those businesses runs from small husband and wife contractors through to the largest Tier 1 contractors operating in Australia, and everyone in between.

Those businesses also deliver construction service work in every sector of the construction industry. From principal contractors to trade sub-contractors in the commercial, engineering, civil and residential sectors, as well as local and national suppliers and industry professionals;

We make this submission on behalf of all of those members.

NT CONTEXT

Prime Minister John Howard was famously quoted as saying that ‘context is everything’. We believe that, for this Inquiry, context is most definitely everything.

We have no doubt whatsoever that the Commission fully appreciates the current circumstances around the economy, economic development and service delivery in the Northern Territory. But we also believe that it is possible to see those through another lens.

It is well known that the NT is one sixth of Australia’s land mass. But this context is sometimes forgotten. The Territory is about the same size as NSW and France combined.

Distances are consequently vast in our world. For producers searching for routes to interstate or overseas markets, the greatest cost for many is simply reaching the first hub or port.

For Governments, service provision beyond the spine provided by the Stuart Highway is a massive undertaking.

In our industry, costs rise exponentially once outside of the regional hubs.

Today, 240,000 men, women and children are charged daily with the enormous economic challenge of developing the NT. Interestingly, that is the same population density as Australia found itself in circa 1866, or more than 150 years ago.

As we know, the economic potential of this region is enormous. The Territory’s true economic potential still remains largely untapped. But it should not be

forgotten that Territorians only started their journey to create a self sustaining economy in 1978, or less than 40 years ago.

They, like all Australians, are driven to get onto an equal footing with the other States and Territories of Australia. However, their starting point has come much later, when they inherited an economy and society with a huge infrastructure deficit and enormous variations in income, life expectancy and personal development.

Over those 40 years, Government, industry and the wider community have made tremendous strides in building the stock of capital. Progress has also been made, albeit slowly, to also close the gap on opportunity. Clearly, that journey still has a long way to run.

Decisions taken around HFE will very much determine how successful we can be.

HFE MODEL

Obviously, the key variable in the HFE debate is population. The more people in a jurisdiction, the more funding is allocated from the pool. From there it becomes a debate about 'relativities' in terms of service provision to bring all Australia's up to a par score.

Australia's population density is approximately 3 people per km². Very simplistically, the NT will have reached theoretical parity with that average at the point in time where its population expands from 240,000 to 3.9m people, noting of course that that benchmark is forever moving out.

We accept that at one level this is a meaningless comparison, but it does help to reflect the enormity of the challenge that Territorians have to develop their State. It also points to the stage of economic development in the Territory.

We acknowledge that land mass of itself does not necessarily require services. But the minimal infrastructure spine across the NT is also cause for holding back development, and that is a direct function of the sheer scale of the land mass under administration.

We would therefore argue that it is a mistake to partition, or separate out, the discussions around development and services provision. Again, simplistically, the faster the NT develops, the quicker the cost per person of servicing the population falls and the quicker disadvantage evaporates away.

It is genuinely in everyone's interest, Territorians and the wider Australian community alike, to front end load the economic development effort. We should all be talking about how to configure the HFE model in Australia to maximise the task of building a contemporary economic system in the Northern Territory.

One which has the capacity to self-generate sufficient income to administer services etc without undue demand on other States and Territories.

RAPID ECONOMIC DEVELOPMENT

Rapid Economic Development must be the goal that all of Australia should hold for the Northern Territory. Not just for reasons of equity, but also to bring 1.3m km² more fully into our national economic system, with the boost that would then provide for all Australians.

The primary building blocks are in place. There is significant untapped energy reserves. Water and land provide genuine opportunities around food production. Traditional and rare minerals are spread across the Territory. The tourism potential remains largely untapped. And of course, the proximity to the Asian region will undoubtedly open up new opportunities in years to come.

Further national benefits include critical mass or scale in support of our national security and the leadership that the NT can provide in progress towards resolving one of the fundamental challenges of our time, to 'close the gap' for disadvantaged Territorians in remote communities.

As mentioned throughout this submission, there is an acknowledged infrastructure deficit in the NT and that deficit limits business investment. More often than not, investors are confronted with the twin challenges of being the foundational investor in their region or industry, not only with the additional risks that brings commercially, but it also means they are unable to leverage any pre-existing infrastructure, so commonplace in more developed regions

Naturally, those investors turn to the NT Government for support.

The dilemma is that the return on that investment to the NT Government is usually quite limited, thanks to vertical fiscal imbalance, where the Australian Government is the major beneficiary of economic expansion.

For example, some years back, the econometric analysis of the Blacktip Offshore Gas project in the Bonaparte Gulf, developed to supply gas for power generation in Darwin, showed that the nett economic benefit was split \$9m/\$310m between the NT Government and the Federal Government.

We recognise that this Inquiry is not charged with resolving VFI. But the example does provide a further reason to focus hard on the nett benefits of HFE.

And we do point to the obvious link between revenue provided within the HFE policy envelope, the development of the Territory, and the dividend that then accrues back to the Australia.

PARADOX OF CHANGES TO HFE

We probably do not need to point to the obvious paradox in this discussion, that any reduction to the NT's share of the GST pool from any adjustment to the HFE parameters, would then see increasing pressure on the Australian Government to provide additional special purpose grants to make up the funding shortfall.

Otherwise the risk in potentially destabilising this economy, or at a minimum, setting back economic development is simply too great.

Paradoxically, it could simply see one bucket reducing and another increasing. While some might argue that cards should fall as they may, surely public policy in 2017 is much more mature than that!

As well, the NT's share of the GST Pool is relatively small, and any transfers away from the NT to the larger jurisdictions would almost go unnoticed, but the impact in the NT may well be catastrophic.

Again, paradoxically, even a slight increase in funding to the NT will help to accelerate economic growth lessening the need for such funding in the long term.

For the average person in the street, it seems quite hard to reconcile a situation where a 'highly technical debate' about HFE can lead to such circumstances!

AMBITION

We would argue that this is the time to think big, to be ambitious around our policy settings.

Recommendations suggesting a lower standard for comparable service provision between States and Territory's can seem perverse, considering the incredible challenge of delivering basic contemporary services to communities across the Territory landscape.

Any 'savings' from adjustments to funding streams to the NT are equivalent to 'simple rounding errors' in the overall pool, but the consequences in the NT may well be dramatic.

We should be clear.

The Territory is still delivering 'first schools' to communities.

All weather access is still a 'luxury good' for many in regional centres.

The distance to key medical services can be measured in the hundreds or thousands of kilometres.

Many of the social services fly in and fly out by plane.

Investors must not only fund their projects, but also contribute to traditional public infrastructure if they are to get their projects 'off the ground'.

We acknowledge that today is certainly better than yesterday was. The ability of successive Territory Governments to do provide those improvements has been underpinned by HFE.

We do accept that not all Government decisions have been optimal, but we are also certain that the NT has no mortgage on sub-optimal decisions by Governments. Some waste is inevitable.

Without question, HFE and private investment are the two touchstones for building a modern economy in the NT.

We do accept that the 'relativities' are designed to incorporate some of that ambition. But there is also a pragmatic viewpoint to highlight as well. If the consequence of 'tinkering' with the way funding is distributed leads to perverse outcomes, then those consequences need to be called out.

We encourage the Productivity Commission to genuinely ask the fundamental question of 'how is it possible to accelerate the development of the Northern Territory – to encourage the rapid advancement in particular of economic and social infrastructure'. As that is the surest way of reducing the gap between the large, mature, populated States and the emerging economy that is the Northern Territory.

Two options that the Commission could consider in its deliberations are to:

- Consider whether there should be an uplift factor in the proportioning of the GST pool to recognise the need to accelerate the economic development of jurisdictions with low population densities; and,
- Consider whether a small percentage of the pool should be set aside, or quarantined, to encourage the development of a national spine of key infrastructure, things like rail, energy, power and water to accelerate development.