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Horizontal Fiscal Equalisation Inquiry

Productivity Commission

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Dear Commissioners

As the Mayor of Townsville, I welcome the opportunity to make a submission on behalf of Townsville City Council to the Productivity Commission's inquiry into Australia's system of horizontal fiscal equation (HFE), which underpins the distribution of GST revenue to the States and Territories.

Mr Matt Thomson, Chief Financial Officer, Townsville City Council will attend the public hearing in Brisbane on 5 February 2018 on my behalf to further articulate my Council's views on the key issues for consideration.

Securing a guaranteed share of taxation revenue has been a long term goal of the local government sector. It goes without saying that aside from rate and utility revenue, Townsville City Council is reliant on State Government funding to support service delivery and infrastructure for the Townsville community. In fact State Government funding has reduced over the past 10 years putting further pressure on other revenue to support an increasing demand on Council services and infrastructure.

Townsville City Council supports the principles raised in the Queensland Government submission of 18 December 2017. We share the view that the reform approaches canvassed by the Productivity Commission in its draft report will compromise the ability of Queensland and by association Queensland Local Governments, including Townsville, to deliver a similar standard of service to Australians in Townsville. Further deterioration in State funding to Queensland would exacerbate the difficult choice for Australians who chose to live and raise their families in regional areas such as north Queensland. We must avoid widening the opportunity gap between city and our regions.

Queensland's huge geographical area, coupled with a decentralised population, increases the cost of service delivery. Townsville as the capital of North Queensland has a population of 187,757 according to the 2016 Census and a local government area around 3,733km².

The Queensland Government Statisticians Office projects that the Townsville population is expected to grow by approximately 50,000 people over the next 15 – 20 years (based off 2011 census data). There is an ever-increasing expectation on Council to provide comparable levels of service and local infrastructure in line with a growing population.

As a regional geographically spread city located a significant distance from the state capital of Brisbane, Townsville City Council bears additional costs in providing services to its residents, including but not limited to:

1. **Energy costs are significantly higher in North Queensland** - Townsville is located 675km from the nearest large-scale baseload generator in Gladstone. Local businesses have been struggling through a difficult economic environment and one of the main factors affecting their viability has been the high and increasing cost of electricity. The Queensland Government supports regional and rural Queenslanders by subsidising the additional costs involved in supplying electricity to regions including Townsville via a State Community Service Obligation (CSO).

Any change to the HFE that led to a reduction in revenue for State Government may reduce the amount of funding available for the CSO – the shortfall would result in pricing pressure for Townsville. Any such increase would have a significant negative impact on the ability of existing businesses and potential households to survive and would reduce the local competitiveness of Townsville to attract new industry and economic development opportunities.

I refer the commission to my submission of 6 December 2017 to the ACCC's *"Inquiry into Retail and Electricity Pricing - Preliminary Report"* for further details regarding the impact of the current electricity pricing and supply challenges facing Townsville. One will note in this submission the reference to people living in *Energy Poverty* in Townsville. <https://www.accc.gov.au/regulated-infrastructure/energy/electricity-supply-prices-inquiry/submissions-0>

2. **Tertiary level health care** - Townsville is also home to the only tertiary level hospital in the North Queensland region which provides lifesaving medical treatment to the whole region. It is also the only tertiary level hospital in a truly regional setting in all of Australia. Townsville Hospital and Health Service provides public services to an area of approximately 148,000 km², or around 8.5% of the total area of Queensland. Reduced HFE funding would constrain the ability of the State to fund health services, adversely impacting residents of North Queensland at a time of growing population and demand.
3. **Reduced urban environment for generating rates revenue** - a large proportion of land in Townsville is Defence or government owned for the hospital and James Cook University which means that Council cannot generate rates revenue from that land. That foregone revenue means Council is even more reliant on grants to support its activities. Any amendment that led to a reduction in HFE funding leading to reduced grant funding from the State would reduce Council's ability to deliver services to its residents.
4. **Access to skilled workers and innovation** – Regional Council's, including Townsville City Council, have a role in supporting the liveability of regional cities in order to attract and retain skilled workers, and innovation practices that skilled workers unlock. Facilities such as recreational and lifestyle infrastructure and other social infrastructure is critical in determining the attractiveness of cities for skilled workers.

Delivering and maintaining such facilities in regional cities such as Townsville comes at a higher cost. Any reduction in funding which adversely impacts liveability has a detrimental long term consequence on Council, and the region.

5. **Environmental compliance costs** - Townsville, given its location and proximity to the Great Barrier Reef Marine Park, has additional regulations to abide by to minimise impacts on the reef. For example, higher quality sewerage treatment infrastructure and disposal required of Council, in waters adjacent to the Marine Park, translates to additional costs to the Council and community, and reliance on State Government support.

The proposed shift away from a HFE model founded on delivering each State the same fiscal capacity is concerning, and puts at risk the ability to deliver current levels of services and infrastructure in a growing regional city like Townsville. Whilst my Council continues to innovate in support of local economic opportunities, costs to provide key services remain much higher and our ability to continue the level of support for our residents remains linked to State Government revenue received via HFE.

Australia already experiences a major divide between the major cities and rural and regional areas. The HFE changes as proposed create risk of wedging an even larger gap.

Yours sincerely

Cr Jenny Hill
Mayor of Townsville