



Australian Government
Productivity Commission

PRODUCTIVITY COMMISSION

INQUIRY INTO HORIZONTAL FISCAL EQUALISATION

MR J COPPEL, Commissioner
MS K CHESTER, Commissioner

TRANSCRIPT OF PROCEEDINGS

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MR COPPEL: Welcome to today's Public Hearing for the Productivity Commission Inquiry into Horizontal Fiscal Equalisation. My name is Jonathan Coppel. I'm one of the Commissioners on the inquiry and I'm joined by my fellow Commissioner and Deputy Chair of the Commission,
5 Karen Chester.

I'd like to begin by acknowledging the traditional custodians of the land on which we meet, the Turrubul people. I would also like to pay my respects to elders past and present.
10

So this is the final public hearing for this inquiry and it follows public hearings we held in November and December last year in Adelaide, Melbourne, Darwin and Hobart. This particular hearing was requested by the Queensland government as our earlier round of public hearings
15 coincided with the state election.

In terms of the report, we are working to complete the final report which is to be submitted to the Australian government by May '15. Participants and those who have registered their interest in the inquiry will be advised when the final report is released by the government, which may
20 be up to 25 parliamentary sitting days after its completion.

Now, for today the purpose of these hearings is to facilitate public scrutiny of the Commission's work and to get feedback on the draft report.
25 We do like to conduct the hearings in a reasonably informal manner but I do remind participants that the full transcript is being taken and for this reason comments from the floor cannot be taken. But at the end of the day I will give an opportunity for those who wish to make a brief presentation to do so.

30 Participants are invited to make short opening remarks of no more than five minutes. We have got a lot of people scheduled for today so we are going to be strict in terms of the overall amount of time allocated. So going beyond five minutes will leave less time for Q&A on your submissions.

35 Participants are not required to take an oath but are required under the Productivity Commission Act to be truthful in their remarks and participants are welcome to comment on issues raised in other submissions. Now, the transcript that I mentioned earlier will be available from the
40 Commission's website following the hearings and participants' submissions to this inquiry are also available on the website.

Now, if there are any media in the room this morning, we do have some general rules that apply and if there is media in the room, if they could see
45 Brad in the back to see what those rules are? Most importantly though, note

that no video or audio recording of participants is allowed past this point without our permission.

5 Finally, to comply with the requirements of the Commonwealth Occupational Health and Safety Legislation, you're advised that in the unlikely event of an emergency requiring the evacuation of this building, to follow the instructions of hotel staff and not use the lifts.

10 So with those formalities out of the way, I'd like to invite our first participants from Griffith University who are at the table. For the purposes of the transcript, if you could each give your name and then a brief introductory set of remarks, hopefully no more than five minutes? Thank you.

15 **PROF WANNA:** I'm Professor John Wanna from ANU and Griffith University.

MS SPENCER: Nancy Spencer from Griffith University, Policy and Innovation Hub.

20 **DR CHAI:** Andreas Chai from the Economics Discipline at Griffith University.

25 **PROF WANNA:** Well, thank you for the opportunity of making a submission and talking to it today. I think our main gist of our submission is that the agenda really ought to be a bit broader and a bit wider lens, that there is a huge opportunity here for the Productivity Commission to do something for all Australians, and that is start a process, a long process, of reforming fiscal federalism.

30 We often take the view that we should really - I think the states are not incentivised to make a lot of necessary reforms and this is one opportunity where we can throw the ball back in their court to actually encourage them and give them incentives to look for efficiencies in service delivery and possibly reward them; look to deliver better services and to undertake tax reform. As you say in one of your cameos, states doing tax reform, for example moving from a stamp duty basis to a more generalised land tax, can actually disadvantage them under current formulas.

40 I think we have been discussing fiscal reform for many years, probably since 1904, I think it was, when the first challenge on the Braddon clause came. But recently we've had a lot of enthusiasm about the white paper and about the COAG process and to some extent the Commonwealth has gone to water on that and the Commonwealth has been abrogating its

responsibilities and walking away from some of the agendas it put out, which we think were very good agendas.

5 If the consequence of this report is very minor recommendations which is to change the definition slightly of HFE or encourage the Grants Commission to go more public in espousing the merits and benefits, then I think Australians will be disappointed in the lost opportunity.

10 In terms of the specifics, it is a long-term issue, fiscal federalism. It won't be solved by one thing and I think the danger of this report is you call out one thing, the relationship between the GST and HFE, and try and tweak a little reform which really is connected to many other parts of the system. And I think while it's not in your terms of reference to reform the whole system, you can point to directions that COAG and the Council of
15 Governments, Financial Council of Government, should be moving towards.

If we take some of your assertions – and we think two or three times you assert that HFE is very well accepted and very strong and very popular – I don't see a great deal of evidence for that. I would say, if you look back
20 117 years, it is a hugely contentious topic and has been the source of intense politics at various times, particularly in the '30s, particularly in the '80s and particularly, of course, GST.

25 So I don't see any evidence that it is very well established and I think it depends what questions you ask. If you ask general Australians, "Would you prefer all Australians to have similar education and hospital status?" They will probably say yes. If you ask them, "If one state has a Rolls Royce service provision should that be equalised across Australia?" Probably say
30 no. If you ask them, "Would you like your tax transferred to other jurisdictions?" I think most Australians would say no.

Quite frankly, most Australians have never heard of HFE. It's not a concept that they're particularly focused on. It's also increasing as a
35 proportion of the GST. It's now getting close to 13 per cent so as that figure increases as part of the GST take it will get more contentious, not less contentious.

40 I think timely HFE, which I understand for political reasons in 1990, 2000 was a smart move to get a broader tax through. But having said that, having now framed it as being the only element of HFE, I think that is really counterproductive. That's the zero sum game and that's at least a lot of stupid politicking where states just simply go cap in hand to the Commonwealth whenever there's an issue they want to spend more money
45 on.

5 I think we've got to turn that around and I think there's many ways we can turn that around or start to turn that around. One way, for example, is to recommend that we not think of GST as the sole source of horizontal fiscal equalisation. We might want to go to - and you allude to that in part. We might want to go to a return to FAGS where income tax, lump sums, are given to states to equalise.

10 We may want to think, for example, about whether the Commonwealth should totally fund the education and hospitals, could be delivered by the state, that we fund it and that has been put to both the Hawke and Rudd governments. It's not - and I think Abbott once contemplated it. That would largely obviate any need for fiscal equalisation if the Commonwealth were paying for those massive services. But most of the other - the industry parts of government are not subject to that horizontal equalisation need necessarily.

20 I think there is a lot of fictions around equalisation. For example, the Grants Commission calculates it on fiscal capacity. I don't see any logical reason why they should focus on revenues. They should just focus on the costs of delivering services. They should also then encourage and in some cases impose funding conditions on the states to equalise, if that's what they're funding.

25 At the moment we say, "Here's your dollop of money," and the states are quite happy with that. They get largely an untied amount of money. If we're serious about equalising services then we should say, "States, you've got to equalise your services. You've got to improve your education."

30 For a long time in Queensland we have no, effectively, grade 1 of school. Everybody else had that extra year and it was only when a windfall came to the Beattie government that they put that area back in. For many years we made submissions about road funding and that was spent on the roads we made the submissions about. So actually to get states to equalise the services, if that's the intention, ought to be something we should think.

40 It should be based on the cost of delivery and that will vary. It will be more expensive to deliver something in Sydney than it will possibly in Tasmania. And you'll hear from Queensland about remote regional Indigenous has been another factor as well.

Timing is a problem, and although it's gone down from a five year loop to a three year loop, it's still a problem. And there's a statement in your report that says, "These are cyclical effects and the whole purpose of

equalisation is not to address cyclical.” Well, it ought to be. It ought to be. I mean, that is a problem for state governments.

5 If they are facing severe cyclical conditions - and remember, the revenues part of a budget is the hardest part to estimate and it’s most fickle and subject to economic growth. Expenditures are much more easily calculated. Then it’s a volatility that all governments will face but it’s very, very serious for the ones that have an economic boom and bust model.

10 The stable economies are fine. The ones that have huge changes in their economic capacity, particularly with mining, are going to be subject to this (indistinct). It’s not a massive structural problem because it will right itself over time. We all know that. But it is a problem at that point in time.

15 If we talk about Commonwealth redressing things through FAGS with lump sum funding you’ve got a comment in there that this may mean that the states would be subject to the fiscal position of the Commonwealth. That is true, but everybody is because the Commonwealth could address that like Chile does with a contingency front.

20 Rather like with the Future Fund, it could put money into a contingency fund which could be used to balance out all the time. There was some suggestion that the Commonwealth was trying that around 1908, 1909, 1910 when it set up special reserves and these special reserves could
25 equalise all the time so we’ve got a five year period.

Our main point though I think is that we should start to think about the states having a guaranteed share of revenue. I think some of the arguments above DFI are very abstract but it is an issue about holding governments to
30 account. We’re probably not going to separate rules and responsibilities between the Commonwealth and state and territories. We’re probably going to go into an area of more hybrid, more shared delivery systems where the Commonwealth takes more and more responsibility for funding.

35 I think giving the states - or pushing the Commonwealth to consider a guaranteed revenue may be over a 10 year frame which could be adjusted, you know, within that time. But giving them some certainty would really help their budgetary position and their calculations. I don’t think the changes for most states, in terms of HFE changes through the GST,
40 massively destabilises their budget position. I think most can calculate and accept that. Thank you.

MR COPPEL: Thank you, John, and thank you also for the submission that you’ve looked at Productivity Commission. Both the submission and
45 your introductory remarks raised many, many issues so we won’t be able to

get into all of them. But I did want to make the point at the outset that our terms - and I think you made the same point, that our terms of reference was really focused on HFE.

5 **PROF WANNA:** Constraint, yes.

MR COPPEL: But we do, in the draft report, make some reference to the broader picture of Commonwealth-state financial relations and how some of the options would really be dependent on a wider scope. So I think we
10 have some similarity there but - - -

PROF WANNA: You do talk about those broader metrics, you know, like state productivity, state gross product. Can I ask why you're not more enamoured with those kinds of things rather than the more detailed
15 calculation on the tax and expenditure side?

MR COPPEL: Sure. So as you'll see in the draft report, we did look at some of those very broad indicators and how they them compared with the current system and you get a very, very different outcome. You're even
20 getting into a situation where some of the jurisdictions would be paying back to the Commonwealth out of their revenue. And that reflects a wide range of factors, including the cost of delivery of services or the fact that some jurisdictions have a large number of government employees which are exempt from payroll tax, the ACT in particular, but Northern Territory
25 as well. It is an area where maybe the use of not necessarily sort of a single indicator but a set of indicators - - -

PROF WANNA: Small circle.

MR COPPEL: - - - where we think there's some prospect there and that again is something in the draft report. But maybe if I begin by starting off on this sort of bigger Commonwealth, state, federal relations issue? You gave some areas which you thought were important but I'd like to get your views, in the context of HFE, which areas of broader Commonwealth-state
30 fiscal relations do you see as important to look at in the context of HFE?
35

PROF WANNA: I think we should look at how far Australians want - as we say in our submission, the second part, the degree to which Australians want public goods and in particular that would be infrastructure services.
40 And I think we should also look at the degree to which Australians want redistributive policies. And I think we can do that not through accepting that just governments define this by sweetheart deals between themselves, but with more an evidence base, more, you know, statistical base from polling. And I think Australians would be able to give answers to those
45 questions, properly put.

5 In terms of areas of equalisation, I mean, I think there's - there are real problems in Australia in terms of, you know, population structure and in terms of the regional and remoteness which we have to live with. And those things need to be addressed but I think it would be better addressed sometimes by states themselves being held to account if they had their own guaranteed revenue base.

10 I think there's too much of the senseless politics of states and territories going down to COAG, agreeing to anything to get a bucket of money off the table and then going back and doing precisely what they like or varying it considerably within that scope. I think that that, you know, short-changes and I think it is almost a cancer in the system. It's - and one we can't get out of. If you're going to hear from the Treasurer this afternoon and those arguments will - potentially those arguments will largely be put.

20 So I think making the states more accountable and incentivising them to do things better is crying out for what we need to do. And it may be a generational thing, but let's start moving towards it. Let's start to take the steps. Let's start to put the agendas down. Let's start to get some discussion.

25 As I said in the submission and in the introductory remarks, the white paper is a good place to start. Paper 5, the white paper, has some excellent analysis but it doesn't have a lot of solutions, but it has a good analysis. And the COAG statement on how Commonwealth and state should work together to improve services is another good start.

30 I think COAG will be crucial to this process but at the moment with the zero sum game it's very hard to get a consensus agreement. I think if we change the rules of that game then we might get states and territories saying, "We have shared interests in this."

35 **MR COPPEL:** So one of the points you made about getting a better sense of the preferences of states and territories is to do polling.

PROF WANNA: Survey them, yes.

40 **MR COPPEL:** Survey them. How - - -

PROF WANNA: And their stakeholders as well.

MR COPPEL: Can you just run me through how that would work? Would it be a regular exercise and how would you then use that information to

make, you know, judgements between equity, efficiency, simplicity of the system?

DR CHAI: Can I take this one?

5

PROF WANNA: Sure.

DR CHAI: Yes, so willingness to pay measures have been used throughout the world in large-scale decision-making for - think about compensation and accidents and disasters about how much people should get compensated. Willingness to pay measures, there's an accepted science around those. You don't ask people directly about how much people - government services they need but you ask - you give them choices and options but there are implicit trade-offs between things like equity and the level of government services they need. These willingness to pay approaches have stood up in the court of law about the science behind them. They're very well developed. They've been around for 20 or 30 years.

20 Something where we get a general understanding of the level of benefit that we're delivering across the different states and territories would be really useful, generally because there's a good argument by Tiebout in 1956 that there could be a bit of a self-selection process going on that people in different states and territories may have different preferences. And as a result equalisation process may be quite distortionary, might not be optimal for welfare.

30 So generally having a consultative process would be good because it would inform the public about what's going on and how these decisions are made. And at the same time we could base the decision and the allegations on more feedback about what the preferences are.

35 As we note in the submission, it's not just their preferences for public goods. It's their redistributive preferences. That's fairly new but it is still an idea about even if people have the same demand for public services across the country, which is not necessarily the case, but even if they did they may have different preferences about how willing they are to redistribute to get that type of equality.

40 **MR COPPEL:** But isn't this essentially the argument for why the revenue distributed from the GST isn't tied to the actual calculations of the assessed need, individual expenditure areas? It is precisely to allow the states the discretion to determine how they allocate those resources across the different services that governments provide. In your opening remarks you

suggested that health and education could go to the Commonwealth level in - - -

PROF WANNA: For funding, for funding.

5

MR COPPEL: For funding. That would leave very little for states in terms of their roles and responsibilities because education and health infrastructure are essentially the vast bulk of the responsibilities of states. So I'm sort of interested in sort of pursuing a little bit further. I mean, is that part of your reasoning? Do you think that ultimate fix for some of the issues that have been identified with the relations is more of a unitary system of government?

10

PROF WANNA: Well, there's two things. One, as you know, in our public policy lots of lobbyists, lots of pressure groups in our society just simply think government is, you know, like a poker machine. You just press a button and money will come out. But you never put the other side which goes (indistinct) which is, where is the money coming from? What kind of revenue stream are they hoping to tie that from?

20

Now, we could think more, for example, about hypothecated taxes. We could run our health system with a much more hypothecated thing where money came in, actuarially assessed and then going out. I don't think the states would have less responsibility. I think the states could increase their areas of responsibility and improve their services.

25

Just because the Commonwealth funds it, the states - for example, if the Commonwealth were to fund education and health, the Commonwealth could make performance payments like they did with the competition policy in the '90s. They could make performance payments contingent on improvements and that would help the states, give them a real incentive to stop and think.

30

Instead of, "The Commonwealth is a big bag of money and we've just got to - like pushing a balloon, you've just got to keep pushing it in various spots." It would start to get them to think, "We've got to rationalise our services. We've got to start to deliver more effective education." You know, "We're falling down that piece of chart and why is that?"

35

DR CHAI: Yes, that's right.

40

PROF WANNA: There's no incentive for the states to improve.

DR CHAI: I think effectively - I don't think Australians really care which part of the government delivers which part of the service, as long as their assumption about what service is there - - -

5 **PROF WANNA:** It's seamless.

DR CHAI: - - - but that's the important thing. And so the policy neutrality, that probably needs to be thought about when it comes to HFE because it's effectively what John's arguing, is that we need to have outcome based
10 measures - - -

MR COPPEL: So that we can bring it back to HFE, because let me start it off by the broad landscape there, what in your view would be the objective of HFE and how would you then define that objective in terms of the way
15 in which you would implement HFE under your view of the world of HFE?

PROF WANNA: Well, you might think it comes out of the unitary system but if you look at New Zealand, New Zealand have about 10 key deliverables which are usually complex, multiagency, over periods of time.
20 They're to do with life expectancy, health indicators. They're published. They're updated, I think, every quarter and those are indicators that all the agencies and to some extent the non-government sector are working towards. And the government is held to account and they're very honest in those things. So many of them are improving but some of them have
25 deteriorated slightly and then there's a big effort to try and improve them.

I think if we were to identify, probably through a COAG process, a number of main indicators of standard of living in Australia, wellbeing, and then said, "These will be joint responsibilities. It doesn't matter how the
30 funding mechanism (indistinct) but these will be joint responsibilities and we will ensure that all Australians - almost like there's a constitutional right - get access to these kinds of things." And I think that would be a way forward.

35 Some states have thought about this individually but what the Commonwealth does is it hands over (indistinct) which is a zero sum game which is counterproductive and you're probably not going to survive going forward. And then it bribes the states with special payments and national
40 partnership payments to do X and Y on top of that. Now, that system could be a bit unpacked to make it more rational and to line up the incentives more so that we're not in a kind of patron mendicant situation all the time.

MS CHESTER: Just coming back to the point earlier on that you raised, John, about accountability and I think a careful read of our draft report
45 would suggest that the Princess and the Pea problem here with HFE is really

5 accountability. Indeed, it was quite interesting reading the Commonwealth Grants Commission's submission to us post our draft report where they took our version of their (indistinct) of equalising to the highest state and showed that even if you equalise to the highest state today, even WA can't meet its assessed expenses until you've got that final overlay of the EPC based distribution, GST. And why? Because of VFI.

PROF WANNA: Yes.

10 **MS CHESTER:** So in our report we look at the accountability issue in two ways. One is from taxing powers, and you'd look at reforming that through addressing VFI in a longer-term sense. But the other one is accountability for spending. So who's effective - having a clear line of responsibility for health or education. And agree with the point you made. We're very much
15 in a hybrid world at the moment and wrestling that barnacle off the ship is probably going to be near impossible, which means we're then in a world of, "How far can we really deliver accountability in broader Commonwealth-state financial relations if we've only got the VFI levy to deal with?" Which I think is where you're heading. Is that going to be
20 enough in the absence of a reform or clear accountability around funding and spending responsibilities?

PROF WANNA: I think we're going to see going forward much more joint management of issues, much more - rather than siloed, and I don't
25 mean siloed between agencies but between governments. Much more interaction between governments. We're starting to see it in some of the case management examples that are happening around Australia but I think we'll see far more.

30 I mean, you know, look at universities. Universities have both Commonwealth appointments on them and state appointments on them and that's to kind of give a governing flavour to what's going on in that sector. I think we're going to see more of that coming into other sectors. I mean, there will be areas which will be entirely state based. A lot of the land based
35 stuff and such and law and order base will be largely in the state sector. But I think many of the important and expensive components of our federation are going to be joint services and jointly managed and I'm including not only education and health but infrastructure as well and possibly issues around national security.

40
MS CHESTER: So if we agree that that's where things are heading I guess the question is, is that a good thing or a bad thing? If we're trying to get some semblance of accountability within a fiscal federation is it just having
45 accountability on revenue-raising powers or do we also need to have accountability on spending responsibilities? So I think we can all agree that

that's the direction we're heading in. How much accountability can we then get?

5 **PROF WANNA:** Well, the Commonwealth is always going to have far more accountability for revenue-raising unless it actually seeds some component of direct taxation to the states. A formulaic guaranteed revenue share would be better where the Commonwealth still took responsibility for it overall because the Commonwealth has got a macroeconomic function as well as a budgetary function.

10 **MS CHESTER:** So you wouldn't see a situation - - -

15 **PROF WANNA:** But states should be held much more to account for their service delivery because they're in the business of doing that. I mean, if you look at the Commonwealth there's only about five agencies that deliver really a great deal of services. The rest are all policy or regulatory. The ones, you know, like taxation, immigration and the like, Centrelink, you know, they're delivering things but that's a relatively - and it's a big component in terms of employees of the Commonwealth but it's a relatively
20 confined area. The states are, you know, three quarters - 80 per cent of our public service is in the states. They're the ones largely delivering all the services that most people get.

25 **MS CHESTER:** So if we looked at doing a modicum of reform within HFE to try to elevate - get a better trade-off between efficiency and equity which is kind of what we're trying to do here, if it was then tied to some form of reform of revenue-raising responsibilities going forward would you see that being a path worth pursuing?

30 **PROF WANNA:** I'd see that as a plus and I would also see that improved performance as a plus. So we can incentivise them to deliver better.

35 **MS CHESTER:** With the VFI component of it, and I may have misunderstood what you said before, are you talking about just guaranteeing the states a percentage of a Commonwealth revenue, which is what we're effectively doing with the GST, or is it actually saying to them, similar to like Commission of Audit and other reports, "Here's part of the income tax pie. You can now increase it or decrease it going forward. So it's now a revenue that you have control over and you're therefore
40 accountable for it."

45 **PROF WANNA:** That's been tried, to my knowledge, twice and never been taken up by any state. In fact, I think never won an election on the basis of double taxation when - it was the Fraser government first allowed the states to have a self-declared component. I think it would still be better

for the Commonwealth as a - in terms of the efficiency of collection, it would be better for the Commonwealth to be the main taxing entity in Australia. They have the capacity not to erode the tax base, where there's always a risk in a competitive environment where states compete against each other will erode the tax base. And we've seen that, for example, in a lot of payroll taxation which is still a big factor for states, but we've also seen it largely eroded in areas of work supply.

So I think the preferred model would be to give the states a percentage so if the income taxes went up and was, you know, \$450 billion, if it went up to, say, \$500 billion and there was a large increase in tax the states would share because it's largely from their population that is contributing that taxation. It's not the Commonwealth's at one level. The Commonwealth sees the administration of taxation in - well, the 42.(?)10.31.30

But it's the people's money and, you know, as the white paper says, you know, one of the things that ought to be addressed is that relationship. It is VFI at the moment and the Commonwealth fiddles that with block grants that are untied and then the various ones that are tied and it came to that under section 96.

MR COPPEL: There are more questions that we could ask you but we have run out of time.

PROF WANNA: Sure, thank you.

MR COPPEL: We do note that you've brought those up in your submission to this inquiry so once again thank you very much for your participation today and in the inquiry.

PROF WANNA: Thank you.

MS CHESTER: Thank you.

PROF WANNA: There is one just final point.

MR COPPEL: Sure.

PROF WANNA: One of the other professors of economics put a paragraph in there saying one of the problems with using the GST for fiscal equalisation is that this is a regressive tax and you're using it to redress inequalities. And he thought it would be better to have those inequalities addressed by direct taxation so it's a progressive tax funding the redistribution effort rather than the regressive tax doing the job.

MR COPPEL: Yes. I mean, there's a distinction between the inequalities on individuals - - -

PROF WANNA: That's right.

5

MR COPPEL: - - - and HFE which is looking at the inequality of the capacity of the states.

PROF WANNA: Yes, I mean, at one level every dollar going to the Commonwealth is part of the Commonwealth - you know, the budget allocative process but it would make better sense to have taxes that had a specific purpose in mind and use them for that specific purpose.

10

MR COPPEL: Good, thank you.

15

MS CHESTER: Thank you.

PROF WANNA: Thank you.

MR COPPEL: Our next participant or participants are from the Queensland Chamber of Commerce and Industry. Make yourself comfortable and likewise, when you are, for the purpose of the transcript give your name and a short opening statement. And again thank you also for your submission - or your submissions and also for the earlier meeting we had. It seems like a long time ago last year. So over to you, thank you.

25

MR TAIT: Good morning. My name is Stephen Tait. I'm the CEO of the Chamber of Commerce Industry Queensland.

MR GOSAREVSKI: Steven Gosarevski. I'm an economist at the Chamber.

30

MS WHITTLE: Kate Whittle, General Manager of Advocacy position.

MR COPPEL: Welcome.

35

MR TAIT: We welcome the opportunity to appear this morning before the Productivity Commission. As you know, we represent the views of over 400,000 Queensland businesses on local, state and federal issues that matter to them. As part of a federated model we have a close working relationship with Australian Chamber of Commerce and Industry and we appear jointly on behalf of both. We advocate on policies that are in the best interests of business, especially in Queensland, the Queensland economy but more importantly the Queensland community.

40

45

We commend your Productivity Commission's draft report. We overall agree with the objectives and the conclusions that were arrived at. Nevertheless, as noted in our respective submissions to the inquiry to date, we are here today to make representations opposing any substantial changes to the existing HFE system for distributing GST to Australia's states and territories.

It is our strong belief that a reduction in GST revenues for Queensland would undoubtedly impact on the capacity of the Queensland government to deliver services to the citizens of Queensland. And in the context of our vast and decentralised state, any changes to the current distribution model would force the hand of the Queensland government to raise taxes on business, thereby undermining the strength and competitiveness of the Queensland economy, which would have a direct impact on those one in two jobs that are employed by small business in Queensland.

Under the alternative approaches to HFE, as in the draft report, Queensland stands to lose anywhere between \$729 million to \$1.6 billion if the changes were applied to the 2017-18 GST distribution. We have publicly expressed this concern about Queensland's budgetary position on an ongoing basis, in particular rising debt levels, and removing such a substantial amount from the budget would have to be met through an increase in taxes or through cuts to government spending, and both options are unpalatable.

Our members have told us that electricity costs are one of the biggest issues holding back their businesses from growing. This reduction in funds would mean that the Queensland government would continue to use government-owned corporations for their dividends and currently the Queensland government is covering the cost of solar and water scheme to the cost of over \$770 million a year. A loss of GST funding could result in this cost shifting back to our members and businesses or public infrastructure investment is at a decade long low in Queensland.

In the southeast Queensland region congestion is becoming a major issue and impost on business, while the region's water supply, telecoms and transport infrastructure is lacking. Infrastructure investment is one of the easiest categories to cut when a government seeks to fund quick savings through spending reductions.

This impact would further slow the growth in employment and economic outcomes, particularly in the regions. The Back to Work Jobs Program is a \$305 million fund to incentivise employers to hire out jobseekers. This has been a popular program among our members in the

business community, with over 10,000 workers hired under this program. We have grave concerns that this program could be scaled back or removed.

5 Equally important, we believe that this could jeopardise a number of key welfare and business programs which are relevant to regional communities. The state government currently relies on a number of inefficient taxes such as payroll tax and stamp duties, and these taxes would be an obvious target for the government to recoup any lost GST funding.

10 Thereby with reference to the recommendation 2.1 as contained in the draft report, the Chamber rejects that there must be a substantial departure from the (indistinct) efficiency. We recommend that the Commission retreats from their reasonable rather than full equalisation and explore alternative mechanisms for greater revenue raising capacity by the states and territories.

This could take the form of broader structural reform of the federal taxation system, thereby leaving room for the state and federal governments to remove inefficient taxes such as payroll tax and stamp duty, while allowed to continue to deliver the service to their respective populations.

25 The decision to move to partial equalisation would be highly detrimental to Queensland, we believe. We believe only proper equalisation of the revenue sources of states and territories is key to maintaining equity in the system and compensating those states and territories for factors beyond their control. The Australian economy faces a number of impending challenges due to technology change, an ageing population and increased mobility of investment. Queensland businesses consider the national tax system, which has remained relatively unchanged since the 1950s, to be outdated and a brake on the economic growth.

35 We believe that the federal government has other policy and fiscal levers which they can pull to mean equity in the GST system while improving fiscal position for all states and territories without resorting to billion dollar cuts to the Queensland budget. CCIQ suggests that the Productivity Commission make recommendations to government that encompass holistic tax reform of Australia's tax system. But as acknowledged this morning, whilst this may be out of your scope, it's an important factor to discuss.

40 We believe that GST could be and should be redistributed and broadened. Raising the GST and removing the exemptions to health, education and food could generate an additional \$10 billion in revenue, increasing the size of the GST draw would result in a greater share of distribution to the states, allocated on an equally per capita basis. By

5 creating more efficient broad based taxes, inefficient state-based taxes such as payroll tax can eventually be abolished and this would remove the need for fundamental change in the current HFE system. In fact, this recommendation was made in Australia's Future Tax System, commonly known as the Henry Review.

10 Obviously any full scale review of the tax system would be welcome to participate in that discussion at a federal level. But in closing we would like to thank you for allowing us to participate today and on behalf of the over 400,000 small businesses (indistinct) in response to the draft. Thank you very much.

15 **MR COPPEL:** Thank you, Stephen. Again there are many areas that you have touched on that we may not be able to delve into today, but I would like to begin again with the broader picture. And you've made the point that there are other levers that could be pulled to improve Commonwealth-state financial relations. You've mentioned tax reform. Do you have other policy areas in mind that fall under that category of "other levers to pull"?

20 **MR GOSAREVSKI:** Well, the Henry tax review still has 130-odd recommendations that still haven't been implemented. You know, I think the literature out there has a lot of options that we need to address and, as your report suggests, that there's so many trade-offs amongst the system here.

25 Where one of the things that - you know, some of the taxes that we've considered and looking at are things like, you know, a congestion tax or value capture. And, you know, for the Brisbane cross river rail project, that has been, you know, a mooted e-tax that the government could implement. But as your cameo has demonstrated, there's these trade-offs going on now where you raise a congestion tax, Queensland's GST share actually starts to fall.

35 So the cameos that you produced was actually quite enlightening to see how the interactions of all these different taxes and levers work. And so I guess it's a bit too big for us to come up with the solution here but, you know, we do appreciate the forensic effort that you've done. And I think, yes, studies like this would help us come to a better conclusion as to different levers that could be pulled.

40 **MR COPPEL:** So those cameos were designed to sort of analyse and assess the impact that HFE has on incentives for major reforms, so efficiency or distortions in the system. And it's an area where past reviews haven't been able to find tangible evidence that there's a disincentive and

that's one of the reasons why we've looked at cameos, because when it is an area of major reform in a large state those disincentives in principle can be quite sizeable.

5 So I think a better example is the cameo that looks at a switch between stamp duty and land tax. It particularly had consequences for Victoria and New South Wales if acting unilaterally. And that is part of the reasoning behind a change in the definition of HFE. HFE has multiple objectives. Equitable distribution is one of those but also to avoid distortions or
10 inefficiencies.

 The way the system is designed at the moment is that it gives effectively total weight to the equitable distribution of the GST pool and that leaves very little scope to give some weight to the efficiency concerns with HFE.
15 So I'm interested in how you interpret equity and what is equitable for HFE? And more specifically, when there is, you know, major reform undertaken by a state do you see sort of a role for HFE to provide some sort of reward for that effort?

20 **MR TAIT:** I think with any tax and the word "accountability" is being used a lot this morning. But if we're actually thinking as a state of what the future of Queensland needs to be and what it can do as a driver for the whole of Australia so that everybody can benefit from it, I think we have to take a longer term view of what incentives and environment we can create through
25 an overhaul of the current tax reform to make sure that we are actually investing in the right infrastructure, the right technologies, the right economic drivers for the whole of Australia.

 I think the accountability around that should be looked at. I think
30 whether (indistinct) provide better services or better outcomes should and could be tied to that reform. But ultimately accountability is based on a democratic model with an election. Whether Queenslanders will actually decide whether or not they will get a benefit or a reduction in service from any government would be the same at the ballot box.

35 **MR COPPEL:** What about the notion of fairness and reward for effort? Major reform effort can lead to a large proportion of the additional revenue, not necessarily from tax reform, being redistributed among the other states. And there's always risks involved in major reform effort so the notion of
40 some reward for that effort, which by definition would be a departure from full equalisation. Do you have any thoughts on that as a notion that should be embodied in the HFE system?

45 **MS WHITTLE:** Be keen to see the propositions for the structure of that and we've seen incentivisation policies from the federal government such

as the recycling program. It largely remains political if you have got governments of different persuasions (indistinct). I do think that there's - it's like having a policy discussion (indistinct) for managerial reform. We'd be keen to provide more feedback on that if that's something
5 you're looking to incorporate in your final report.

But overall I think the substance of our appearance today is, you know, Queensland stands to lose a substantial amount of GST if some of what was included in your report was adopted by the government. And our
10 representations are that we have a broader look at the system.

MR COPPEL: One specific mechanism that's been proposed by the Commonwealth Grants Commission, which is akin to providing some reward for effort, is to allow states to retain 50 per cent of the additional
15 revenue from a tax rate change. I'm interested in what your views are on that particular proposal.

MS WHITTLE: Stephen?

MR GOSAREVSKI: So which sort of taxes were they proposing?
20

MR TAIT: It was the income tax.

MR COPPEL: So it could be any state based taxes, unsourced revenue
25 taxes.

MR GOSAREVSKI: Okay. It's interesting because - - -

MR COPPEL: Could be a royalty.
30

MR GOSAREVSKI: Yes, I was going to say, like, you know, you can't really raise royalties because, yes, you get the mining royalty offside and that you know - - -

MS CHESTER: I think that was the key example they gave. So think of a state which may be setting the average, so WA iron ore, for example. Having that incentive when they face such a tough lobby group to increase royalty rates when there's an assumption that maybe iron ore is being undertaxed at the moment with royalties. So where those disincentives are
40 at play - it wasn't kind of fully - from memory, Jonathon, it wasn't really fully articulated in that paper of the CGCs exactly.

MR COPPEL: No, but I think the impetus has come from these particular examples in the mining sector which is also an important sector in the
45 Queensland economy.

MR TAIT: In Queensland.

5 **MR GOSAREVSKI:** Yes, it's a tough challenge. Like, yes, the way all these state averages interact and play out, if you could increase - in Western Australia if they could double the mining royalties they'd essentially bridge the VFI gap, wouldn't they? Because yes, it's about \$3,000 per capita they get in royalty revenue and possibly more - - -

10 **MR TAIT:** I think if we're looking at all of the levers, especially in the VFI, I think it's something that we do have to look at. I think there's got to be all elements of whether or not we look at (indistinct) share income tax, whether or not we actually look at untied or tied payments. I think these levers exist but I think they need to be explored through the lens of
15 individual states, not just what they currently do but projected revenues as well.

I think that's a really important part because whilst projection can be subjective to some extent and open to macro factors, the fact of the matter
20 is you can - I mean, hope is not a strategy. You can have your strategy which applies to an incentive if you want a state or an area to actually grow. Whether you put that tax incentive to help them do it instead of it being (indistinct) tax. So I think it needs to be done in conjunction with the likes of COAC(?).

25 **MS CHESTER:** So can I take from - your primary concern is more an immediate one in terms of reforming HFE in the current context with the zero sum game would result in the short to medium term in - depending on what transition path you were to follow, what compensation mechanisms
30 might be in place - Queensland getting less of the GST than they would otherwise have gotten.

But the Chamber doesn't have any problem with some of the arguments in our report about getting a better balance between equity and efficiency
35 in how HFE and what incentives that might have for particularly state based tax reform? Is that - just trying to make sure I fully understand.

MS WHITTLE: Yes, absolutely.

40 **MS CHESTER:** Yes, so if that kind of then takes us to the position of the zero sum game maybe there's two angles we could pursue. The first one is, Stephen, coming back to your point about reforms that the chamber would support like a broadening of the base of the GST, do you see that playing a
45 role in Commonwealth, state, federal financial reforms and fixing up HFE?

MR TAIT: Yes, I do. It's absolutely critical.

MS CHESTER: How would you see it playing that role?

5 **MR TAIT:** I think if we can actually implement a broader GST
conversation, whilst it may be politically difficult in some respects, I think
it is critical. But how that plays out is actually for discussion with the public
as well as the government. Broadening out, whether it's on health, whether
it's on education, whether it's on the food component. That will grow
10 significantly the GST pool but I'm aware that that would have an impact on
other areas of society that perhaps would be impacted as a result of it. But
I think we need to have a - we'd have a sensible and reasonable
conversation about how that could be implemented.

15 **MS CHESTER:** Okay, so some sort of link-in being HFE reform funding
mechanism through GST base, noting that it's quite difficult to do,
given - - -

MR TAIT: Yes.

20 **MS CHESTER:** - - - other inequitable flow-on effects that that might
result in. I guess the other angle though then is about - from a budget
management perspective for the state government and people sort of throw
around the big numbers, i.e. what would happen overnight if we did a cold
25 turkey implementation of any change to HFE. That's where they get - even
if you were to take those big numbers and assume outrageously that we do
a cold turkey implementation - which we don't, we're looking at transition
paths - that would only result in an impact on the Queensland state
government's revenues at under 3 per cent.

30
So I'm just trying to work out what impact then that you feel that that
would have from a budget management perspective with a state government
that's already dealing with variability in its own source revenues around
7 per cent year to year? Just trying to work out how this becomes an
35 Armageddon for the Chamber.

MR TAIT: I think it's said in our opening remarks. Our organisation is an
apolitical organisation. It's entirely focused on supporting its members.
The accountability of a government and how it allocates its taxes is
40 something that we strongly advocate on on their behalf. I understand the
Treasurer's speaking this afternoon. I'm sure she can give you a greater
indication of that Armageddon on small business.

45 But to us we would rather GST stayed - HFE stayed exactly as it is and
that would be our view on it. As opposed to what could be the Armageddon

impact, we believe that given our examples this morning (indistinct) think it would have a significant impact. So in the short-term that's our position.

5 **MS CHESTER:** So if we're trying to then connect the dots, because I guess your concerns are you think it will have an impact and that would flow through to areas that you're concerned about like infrastructure and the like. One of the things with HFE is it's untied. So even though the CGC goes through this very elaborate process and very formulaic process of assessing what expenses should be, the money then comes to a state and
10 the state can still decide how it spends it.

So you're going through and look at the numbers of what a state's assessed expenses are for something like transport and then what the state actually then chooses to spend on transport. There's not a lot of - it's not
15 100 to 100 or 1 to 1. So any changes that could happen in HFE, maybe 2 to 3 percentage points, doesn't automatically flow through to what those assessed - whether assessed expenses are still met. Sorry, I've probably explained that in a very articulate way.

20 **MS WHITTLE:** No.

MS CHESTER: So say today, 84.2 cents in the dollar is what the state government spends on transport against its assessed expenses, so any changes that we would be proposing would probably still mean the state
25 government's not actually spending what its assessed expenses are on transport. So I'm just trying to understand how you think no change to the system would still deliver you the assessed expenses as determined by the CGC.

30 **MR TAIT:** Is that on the current expenditure or the future expenditure?

MS CHESTER: No, it's current.

MR TAIT: Current. I think our biggest concern is what the future would
35 look like if we change because our impact of a future change to the HFE could impact on our need for greater investment in infrastructure, not currently what it is. We have a - - -

MS CHESTER: So if we look future then, at the moment Queensland is a
40 net recipient, not a donor state. Queensland rotates between the two depending on typically big natural disasters clustered together, a couple of other factors around some of your state revenue bases. Longer term, if Queensland were to be a donor state moving away from full and comprehensive equalisation would actually benefit the state in a revenue
45 sense.

5 **MS WHITTLE:** I mean, our submission at this time simply reflects our short to medium term view on (indistinct). Ultimately, as we said - I take your point, Commissioner, that there's some economic arguments that are suggesting a short-term Armageddon. There are transitional process and your report provides for those more sophisticated outcomes. But ultimately our view at this stage is, because we are in the position that we are and receiving funds that we're receiving, we couldn't contemplate a change to that in the short to medium term.

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MS CHESTER: So no change at all?

MS WHITTLE: Well, no. I think some - - -

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MS CHESTER: So maybe the better way to ask the question would be, if we were to look at it from a transition path perspective, so if we were to agree to agree that there could be some efficiency benefits from a change to the HFE system. There could be benefits longer term for Queensland and Queensland businesses. From a transition path then what do you think would be a reasonable principle to guide what a state would be able to bear in terms of any changes to the GST amount that it receives such that it's something that the state could digest?

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25 **MS WHITTLE:** Yes, absolutely. I think that will take place anyway, a reasonable transition, and we'd be keen to participate in that discussion. I think we're talking about policy levers, incentivisation programs at the federal level. We're very open to that as well, especially those that consider (indistinct) inefficient state-based taxes. So as kind of we move forward with this conversation there's lots of different angles that we'd be keen to look at. But confining it to the HFE scenario, I think in the immediate term - Stephen, did you have any other comments here?

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35 **MR COPPEL:** I mean, you did, Stephen, make the point about some of the distortions associated with major tax reform that are linked to HFE. How would you go about addressing those without making changes to the HFE? Are there other - do you have other ways in which you think those impacts could be minimised without making changes to HFE?

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40 **MR GOSAREVSKI:** I think it would have to be Commonwealth led in some way, ensuring that, you know, states don't act unilaterally as well so that, you know, it - I think, yes, there's multiple elements. Like you said, simplicity as well. If there was, you know, the - the assessments were made on some broader indicators, then I think the policy neutrality issues could be bypassed. Yes, however I think within this complex box there's so many

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trade-offs going and interacting within each other that, yes, I can't give you a firm answer as to how it would play out.

5 **MR COPPEL:** But do you see the use of - or at least the investigation of broad indicators as an area presumably to be led by the CGC as a fruitful area for - look at further? It's been looked at many times in the past.

10 **MR TAIT:** Yes, I think it's worthwhile exploring all these new levers. We could look to actually help smooth that transition, if indeed there was one.

15 **MR GOSAREVSKI:** I think, yes, it - I think as we had in that initial discussion we had just - one of the biggest problems is that people don't understand the system and, you know, averaging the states across a range of different tax bases and - it's difficult, having the - a common person to grasp what exactly is going on underneath the system and, yes, trying to work out where these trade-offs are occurring. I think moving to a more simplified assessment process, I think we could deliver some dividends.

20 **MS CHESTER:** I just had one final quick question. Hopefully it's one that's more bread and butter for the Chamber. What's on your sort of Christmas list for the state government in terms of state based tax reform that you'd like to see?

25 **MR TAIT:** Payroll tax.

MS CHESTER: So economists and Chambers sometimes have different definitions of what payroll tax reform looks like.

30 **MS WHITTLE:** Yes.

MS CHESTER: What's your version of payroll tax reform?

35 **MR TAIT:** Apart from the abolition initially, we're keen to see how we can actually raise that threshold over a period of time.

MS CHESTER: Okay, so not broadening the base and lowering the rate? All right. Okay, we can agree to disagree on that one.

40 **MS WHITTLE:** Yes.

MR TAIT: Absolutely, Commissioner. Thank you.

MS WHITTLE: Any further questions?

45 **MR COPPEL:** No. Thank you very much.

MR TAIT: Thank you very much.

MS CHESTER: Thank you very much.

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MR COPPEL: Our next participant is the Queensland Council of Social Services - participants. So there are still some clean cups there. Help yourselves to water. Also make yourselves comfortable and again for the purpose of the transcript if you could each give your name and affiliation and a brief opening statement? Thank you.

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MR HENLEY: Sure. Mark Henley, Chief Executive Officer, Queensland Council of Social Service.

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MS BUTCHER: I'm Megan Butcher, Policy Lead for Queensland Council of Social Service.

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MR HENLEY: Thank you very much for the opportunity to present at the public hearing. I'd also like to acknowledge the traditional custodians of the land that we're meeting on and pay respects to their elders past and present and the important needs and opportunities that we should be providing their current and future leaders, as they have so much to offer this country.

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From just a quick background on QCOSS, we have a vision of a Queensland free of poverty and disadvantage. We look at that by, "How do we actually build social and economic wellbeing for every individual and every community and across this state?" And we also work closely with our counterparts, the Councils of Social Service, on a national basis, and the state and territories, to bring together our resources.

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We have approximately 550 member organisations and they range from the very large global community service organisations to the very small and discrete. Could be based in particular communities across this state in rural or remote Queensland or they could be very much an issue based organisation, whether that be mental health, homelessness, domestic and family violence. They are quite broad but they all play a very important role across the community.

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I think a few things to start by is that we believe equalisation is critical for the right investment to maximise social and economic wellbeing. The federal government is responsible to provide the financial capacity to deliver services regardless of where people live, and that being to the same standard for every person across the country.

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5 Adequate funding for essential services like health, education, transport, housing, is foundational to create social and economic wellbeing in strong and thriving communities. Full equalisation ensures the GST revenue is redistributed to states and territories to provide the financial capacity to deliver those services to the same standard.

10 I also believe full equalisation is the fairest way to redistribute GST revenue. The federal government is responsible to every person across the country for comparable levels of taxation and fair redistribution of GST revenue, regardless of where people live. The HFE formula accounts for differences between states and territories in both revenue and spending issues that are outside the control of government policy.

15 I also believe that recent HFE reviews resolve the issues of this inquiry. Recent HFE reviews include the 2012 GST review by former Premiers Brumby and Greiner, the Grants Commission's 2015 review, and the 2017 position paper. Each of these found no evidence that HFE acts as a disincentive to efficiency policy reforms.

20 Each of these reviews also recommended retaining the current HFE objective of full equalisation. We also believe that it has been clear that the Productivity Commission has not made the case for a need to change HFE. Current problems with the GST shortfall to Western Australia are temporary and avoidable through better planning. Disincentives to reform are theoretical only, and not having ever happened in practice.

30 The Productivity Commission alternative approaches to HFE lack evidence. The Productivity Commission itself has made the case against most alternative approaches, including equal per capita and special exemptions for mining. The recommended alternative is a spectrum of equalisation which does not achieve full equalisation, and the Queensland government submission highlights the fact that this alternative would result in significant windfalls to Western Australia and losses to all other states.

35 What we do recommend is a wider review of federalism. QCOSS supports the Productivity Commission and Queensland government's call for a wider review of federal-state financial relations and federalism in general. However, such a review does not need to consider changing what is already working well like the HFE.

40 Despite the dysfunctional blame shifting between federal and state governments, HFE is a success story and, as the Grants Commission states, the achievement of HFE among the states and territories is a strength of the Australian Federation. A current example of the dysfunctional nature of

federalism is the federal government's proposed withdrawal of the National Partnership on Remote Housing.

5 Like the HFE, making such changes goes against the federal government's own published review. Once we have settled federal financial equalisation we can then encourage the Queensland government to introduce regional equalisation of services within Queensland.

10 **MR COPPEL:** Thank you. Let me just make a point in response to your comment that the draft report put forward a number of alternative benchmarks for HFE and distribution of GST without consideration of the evidence. The draft report deliberately put out a number of options without giving a specific recommendation so as to get feedback from inquiry participants and stakeholders on those options. It is also an area where the merits and the demerits of these approaches are being investigated in much greater depth for the final report. So it was, in a sense, a - it was a deliberate way in which we got participant input on those options. So I think you've given your views on alternatives to full equalisation, but I may come back to that.

20 I wanted to also start, as with Griffith University, with the broader Commonwealth state financial relations. It's a feature of many of the submissions from Queensland that many agree that this is an area that needs to be reformed and that HFE should be looked at in this broader picture. Now, if Commonwealth state financial relations were to be reassessed I'd be interested in your views on where HFE would fit within that broader picture or a reformed HFE within that broader picture.

30 **MR HENLEY:** I think from a QCOSS perspective the HFE or the financial - looking at just the financial side is a narrower approach than what we would be asking. I think it's important that from federal and state governments we actually look at what the vision is for this country and what our expectations are around what people should have access to.

35 Those conversations came up in the earlier discussions about we would be very strongly arguing that every person in this country, regardless of where they live, should have access to housing, the right type of education, the right health supports and health outcomes, that there is every opportunity for economic participation and that we build strong and functioning communities across this state.

40 Then you can actually decide about what is the revenue that would be required to invest to make sure that that is in place. I think that we lack an argument or a conversation in this country, and at a state level as we've recently put in as our state election platform, about what's a clear vision

and what does success look like at a state level but also at a local community level? Then we can have conversations about what does it cost to actually make sure that the governments play the correct role and getting clarity between what will the federal government be responsible for, what will the state governments be responsible for, what will local government? But also, more importantly, what will the community itself be responsible for?

So I think it's the wrong argument or conversation to have until we actually have clarity about our understanding and I think the NDIS is a classic example. There was a decision that we should better support people with a disability. The community was overall supportive of that and a decision was made. And then the budget was put there to support that, so at least that was done in the right way about getting the right policy platform. We often have conversations and the budget is driving strategy, not strategy driving budgets. I'm not sure if that helps with your answer but I think we've got to come back to what conversation we need to start and what our expectations are for what a good life is for people.

MR COPPEL: I think it gives a sense of how you define the agenda but it's sort of like, as you say, a starting point and our terms of reference are focused on HFE and the system of HFE. But it does recognise that there are interactions and I wanted to tease out a little bit more the implications of those interactions with the HFE which is sort of our area of focus.

MR HENLEY: Can I just add, I think it makes it very difficult to have that conversation until you've had the foundational conversations.

MR COPPEL: Sure.

MR HENLEY: So often the conversations don't start where you actually need to have them and when there are reviews, public hearings, inquiries, we get the wrong foundations.

MR COPPEL: I wanted to get your views on sort of HFE, if you'd like, within the state jurisdictions. So as you know, each state government has an equivalent of the Commonwealth Grants Commission which is responsible for making an allocation of funds for local government. It aims but falls far short of equalisation as the Commonwealth government commission aims to achieve. I'm wondering if you have views on within state horizontal fiscal equalisation and whether there are any lessons that can be drawn from that for horizontal fiscal equalisation from the perspective of the Commonwealth and the state governments?

MR HENLEY: We've no doubt - so you're referring to how does it roll out in Queensland as far as - yes.

MR COPPEL: Yes.

5 **MR HENLEY:** We've got no doubt that there can be improvements made in relation to that throughout the state. We know - and it's very, very clear that there are less services available to people in rural remote Queensland and that that needs to be improved significantly, and that's across many areas of the community.

10 **MR COPPEL:** Do you think that's realistic, that - well, you know, significantly improved, by that do you have in mind moving in the same direction as what the CGC aims to achieve? So we're talking about in terms of an ability for local government to provide the same level of services across all local governments within Queensland.

15 **MS BUTCHER:** So also, I mean, as the mechanism for achieving an objective, so HFE is a mechanism for achieving an objective which is the same capacity to deliver services no matter where people live. So that's one of the fundamental, I guess, objectives. So I guess one of our perspectives is we're not sure how effective it is in achieving that. But
20 fundamentally we believe in that objective and we believe in full equalisation as a way of achieving that. So our position is we have a good system at the moment. What we may need to focus on though is that benchmark, is understanding that objective better. And we also think that
25 getting it right at the kind of federal, state level provides a pathway for the states getting it right at the state, local government level.

MR HENLEY: So we've had conversations as an organisation about the fact that we believe that provides the foundation at the national level for us
30 to then - as the final dot point was, that we can actually then start to have that conversation at a state level. We haven't talked about the detail of what that might look like but we would welcome that conversation with the state government.

35 **MS BUTCHER:** I think some of our concern is around losing sight of that objective, of that human-centric objective, and losing sight of that through this kind of economic efficiency kind of, I guess, arguments and commentary which I think risk that ultimate objective which as an organisation, QCOSS, obviously that's the foundation for what we think
40 HFE is meant to achieve.

MR COPPEL: So the point that came up in the remarks from Griffith University earlier this morning about the actual expenditure in particular areas of government, state government responsibility and the assessed level
45 of expenditure to be akin to providing the same level of services across

jurisdictions, and in the - so this is the difference between assessed expenses and actual spending by the Queensland government. There are issues with how you interpret those two quantum, but if you look at the case of the Queensland government, the areas of welfare and services to communities fall well below the assessed level of expenditure to provide the same level of services as calculated by the CGC. In the case of services to communities it's about three quarters, 73 per cent, and for welfare it's 84 per cent. I'm wondering if you have any comments on what that means or the implications of that and how HFE works?

10 **MS BUTCHER:** I guess again HFE is a mechanism to give capacity to achieve those kind of outcomes. I mean, our role as an organisation is to put pressure on the Queensland government to kind of make sure that that actually happens in practice. But I don't really see that that is an objective or part of the HFE kind of story. It's something that comes as the nature of federalism but not even about states; our independent governments, and they make decisions based on what they believe is best for their government, their state, their people.

20 **MR HENLEY:** A comment in relation to that, and it is off the HFE topic to an extent but it does come down to federalism. And the comment, I'm fairly sure, made by Griffith University earlier about place management I think was their term, or we talk about place based approaches or community led. There are much more efficient ways in which government can invest. Government structures don't support communities and particularly if you are vulnerable for any reason they are very siloed approaches and programs that are developed. If you're a person who experiences disadvantage or vulnerability trying to navigate what supports and services are out there it is incredibly complex.

30 Can it be improved? Absolutely, it can be, and that's some of the work that we're doing and we welcome the fact that the state government is coming on board and agreeing the fact that there are better ways to do it, and that is doing it at the local level and bringing services together. So yes, things can be improved. But what we would argue strongly is if you've got a strong basis for something that's working and it's based on equity, don't change it until you change the things that really need to fundamentally change, the way in which governments go about their work.

40 **MS CHESTER:** I think it is fair to say that a lot of the debate in this area tends to sort of focus on inputs and outputs and not outcomes so it's hard to sort of follow through and work out what's good and what's not so good. An area - and that's true in the whole efficiency debate as well. I mean, why does efficiency matter? It's only kind of a means to an end. For us, where we looked at it in our report, it was if we weren't getting the trade-off

right between equity and efficiency and HFE and that was holding back a state from developing activities or getting a better revenue base.

5 Thus the Henry Tax Reform identified that to some extent a lot of the states have what would be called in the business community a lazy balance sheet with respect to how much bang for buck they're getting for their community out of their revenue bases, which again is a means to an end, to fund public expenditures. But I guess I wasn't going to raise this but it was one area of our report that we really struggled with and it was actually
10 prompted, Mark, by something that you said in your opening remarks and that is the whole area of indigeneity. So yes, we've been given this narrow terms of reference.

15 Some people had recommended to us in the confines of HFE that the indigeneity factor with respect to Indigenous as a percentage of population and the remoteness factor should be taken out of HFE. It's just distorting the system and because the states have full autonomy with how they expend these monies there's a disconnect between what the assessed expenses are that might be related to Indigenous disadvantage and what's actually being
20 spend and some examples were given for the NT.

Where we kind of landed in our draft report was to say it's that much bigger picture. It's about the overall responsibility between Commonwealth and state for addressing Indigenous disadvantage. And just
25 taking it out of HFE in the absence of that broader reform just kind of didn't make sense to us so we left that untouched. We said, "Leave it in there," but the government, as part of broader federal financial reform, should look at areas of responsibility and accountability around addressing Indigenous disadvantage. I kind of thought we didn't get a lot of people comment on that part of our report but I thought it might be one that you'd have some
30 useful insights to share with us. And sorry, that was a very long way of saying - - -

MR HENLEY: That's all right.
35

MS CHESTER: - - - where we landed in our draft report on indigeneity, did you agree or disagree? We'd love to hear your thoughts.

MR HENLEY: I don't know the detail about where you landed in your
40 report, sorry. But what I will say about indigeneity is that there are fundamental flaws in the way in which a lot of investment happens in Indigenous communities and things that happen to those communities rather than those communities given an opportunity to better meet their own needs and determine their own futures. If you look to the Queensland
45 Productivity Commission Review that was - their final report went to the

state government, I think, just on literally Christmas eve. There's a very good - well, there's a report that makes some very good recommendations in relation to the approaches that should be taken.

5 Regardless about how some of the supports may be provided by way of funding, it is actually about the way in which things happen or the how. When communities or people experience racism day in, day out and it doesn't matter how good the supports and services may be, they're always going to be disadvantaged because of what happens to them. So I think that
10 it's more about the how rather than about what you do, or maybe it's about what you do rather than the how, too. I think that these are fundamental conversations that need to happen with Indigenous people about what will best provide better outcomes for them. It's not just about the dollars.

15 **MS CHESTER:** No. But in terms of getting to the right "how", do you think this issue of accountability about responsibilities for the policy and the outcomes on the ground for Indigenous disadvantage, that that's a factor at play?

20 **MR HENLEY:** Absolutely.

MS CHESTER: Which is where we sort of cast it in our report, was you've got to look at those bigger picture before you can address it in isolation through HFE.

25 **MR HENLEY:** I think in general terms it's either good policy that's needed that's relevant to those communities or for those people and it's also about the implementation. NDIS is a classic example of a wonderful policy that could better support people with a disability and we see some
30 wonderful outcomes. And we see some appalling outcomes for other people because of the implementation that gets rolled out. So I'm not sure if I'm answering your question exactly but I think that there is a fundamental question about how communities are engaged and being part of the solutions because it's very clear governments don't have all the
35 answers. And to their credit, the state government's acknowledging that but they need to engage in this and do what they do better.

MS BUTCHER: I think by specifically including it as well as a factor in HFE consideration is basically calling on state governments to make it a
40 focus as well of their policies and practices. So just by merely including it specifically as a consideration, even though it's about capacity of governments to deliver, it's basically saying, "Well, you know, you should be doing something in this space." So there's no direct accountability but I think it's building an expectation that governments will deliver specifically
45 for Indigenous communities.

5 **MR HENLEY:** I mean, we can't look at that in isolation of the state government. There are federal government policies that are very perverse in relation to Indigenous communities at the moment, whether that's welfare, whether that's the Community Development Program or other issues around housing. So there has to be a joined up approach about what this looks like.

10 **MR COPPEL:** One of the areas that - one of the points that's been made in our consultations for this inquiry is the view that HFE isn't fair. And if you listen to the arguments that are often made when that point is raised is that it's not fair from the perspective of the distribution of the GST pool of revenue. It's a sense that states that made major initiatives in terms of
15 substantial reforms only see a small part of the rewards from that effort return to the state because the HFE system acts to equalise the capacities across the jurisdictions.

20 So in a sense there's a sense of fairness - an element of fairness representing sort of an element of reward for major reform and that is an argument - then becomes an argument for at least preserving a certain amount of that payoff to the jurisdiction that enacted the reform. I'm interested in your views on that line of reasoning, this notion of reward for effort, some reward for effort.

25 **MR HENLEY:** So if you look to the mining boom some five or six years ago, the classic situation would be said in communities such as Mackay which were absolutely booming on the back of that. You could look to having a different - imposing different revenue-generating, government having different revenue-generating options for Mackay. If you looked to
30 Mackay now in the last couple of years would you impose a totally different approach?

35 While you could actually say that some states may offer more by way of contribution to revenue, there's no doubt that communities within the state are in exactly the same position. I think fundamentally we have to come back to we're part of the one country and that every part contributes to the whole. We wouldn't want to bring that down to each person in the particular community and that's why we're looking at having some revenue base from taxation that is consistently applied to everybody based on what
40 a community - whether that's the individual or a corporate - can actually raise by way of revenue.

Different people have different skills and experiences and bring different things to a community. So I struggle with the concept that there

should be anything other than equity across how each of the states contribute, as I would for community by community across the state.

5 **MR COPPEL:** Well, one point I didn't mention that is also mentioned is that in making these major initiatives there are risks involved and to the extent that the risks materialise, the consequences for that state are different from a situation where the risks may not materialise. So they're exposed to the downside but not to the upside so there's an element of uncertainty and that can be a deterrent to reform. So again a richer set of reasons for why
10 that reward for effort notion is advocated.

MS BUTCHER: But wouldn't that - I mean, from types of reform there's not just, obviously, the revenue gain. There are other gains and I mean, usually the decision to undertake broad taxation reform would be based on
15 a number of considerations of which HFE may or may not be one of those kind of driving forces. But I would suspect it would be more about the fundamental overarching objective of the reform and the broader far-reaching impacts to the state. So I don't know that there's been any particular cases where a state has chosen not to do something based, you know, primarily on HFE or if this is just more of, I guess, a possibility or,
20 you know, something that could happen or we think might happen.

MS CHESTER: Yes, well, it's unsurprising that, I guess, the state's been a little bit shy on the evidence base here about to what extent would - there
25 are implications of undertaking - or daring greatly in undertaking state based tax reform in terms of the implications it might have for what they get from the GST distribution. But the cameos - and so because they were shy on coming forward with any evidence as to what extent that might be a factor in their consideration of their cabinets, and we do note completely
30 that there are a lot of other political economy factors that are taken into account and also the impacts on, you know, economic growth and jobs from doing good tax reform which is kind of why we did the cameos because we were grappling to understand what the evidence base may be.

35 But the cameos do show you the kind of factual - if a state were to unilaterally dare greatly and undertake one of those reforms, that there is quite a material disincentive for them doing so. So we're not saying that that's going to be the single tipping point but it is a large factor. I guess at the end of the day to what extent would a government take that into account
40 is one question.

But if you connect the dots then to - and I think it's coming back to the point you made earlier, Mike. You're looking through the lens of, "First
45 let's decide what we want to be able to spend on Australians to make sure that we have an equitable society." But at the end of the day there's still

going to be a budget envelope to pay for that. I guess we were concerned that if there were material disincentives for those reforms occurring you're already going to permanently constrain that budget envelope. Did that kind of make sense or was that just a - - -

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MR HENLEY: It does. It does, but the community has a certain expectation. The community can make very good decisions about what they want to support when they're informed. People aren't well informed about what government strategies are overall, about what the vision is for this country, or for any particular community when we look at that. There is opportunity - and the NDIS is a classic example about having different expectations for people. And that was led by people with disability and community organisations who were providing services for people with disability and, of course, then the broader corporate sector got on board and supported it.

Government follows good policy and there is an opportunity for government to actually lead on some of these conversations about what a good vision is for a country and I think that that's their responsibility. That's what they're elected to do and do what the community's expectations are, not their expectations. So I think that as an organisation we think that there's a better conversation that can be had rather than a jobs conversation. That's the government's mantra, jobs and growth. It's very narrow.

I think coming back also to the previous question about, you know, responsibilities and different states experience different issues or challenges, Queensland has its fair share of disasters, whether that's cyclones, droughts, et cetera. It would be everybody's expectation that governments have a responsibility to support those communities. So there has to be this clear understand about - come back to, "Who is going to perform that role at those times?" The three levels of government step in and probably also add to a very - another level of dysfunctional support when you're people on the ground looking for supports, and some people still struggling on the back of the 2011 floods.

The intent is there but the systems don't support people well. So there are better ways to do things and it's just not a revenue conversation. I think that's why we keep coming back. Don't change something if it's not broken. Let's fix the things that need to be fixed which is federalism, roles and responsibilities, three levels of government. What role does the community play? Let's get some of these foundational conversations right first.

MS CHESTER: Just a final question then, and going back to maybe what we heard from Griffith University earlier today where we do have a trend

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5 towards the hybrid model of different levels of government being involved in every stream of expenditure. I won't profess to be an expert on NDIS. My colleagues back at the Commission have done a lot of better work in that area. But one of the clear areas in developing the architecture for that was having very clear lines of responsibility amongst government and having accountability.

10 So given in every other area we've got this trend towards the hybrid model of both Commonwealth, state being involved in major areas of expenditure so you don't have that accountability to the community about really who's spending what in these areas, is that for you one of the sort of more architectural stumbling blocks that you're thinking that needs to be addressed before - - -

15 **MR HENLEY:** There is a lack of accountability as far as - let's take it to that outcomes conversation rather than inputs and outputs. There is a lack of accountability about what the outcomes look like for people. The better that we can get into that space to really understand what good community outcomes look like - we can look to the Scandinavian countries about what good education looks like, what good housing looks like.

20 It doesn't - it's more about the - there's an often said conversation about, "It's all about culture rather than about structure." And if we can get the culture right about having the right values as a community, having the right expectations about what a good community looks like, it's more important to have that rather than the structures. The structures should flow after that if everyone has clear line of sight about what they're actually trying to achieve. That's not clear in the current environment across the government and across community. And I think corporate sector is confused, not that I want to speak for them.

MR COPPEL: Okay, thank you very much, Mark and Megan, and, again, thank you for your submission on the draft report.

35 **MR HENLEY:** Pleasure.

MS BUTCHER: Thank you.

40 **MS CHESTER:** Thank you.

MR COPPEL: So we're going to take a short break now and we'll reconvene at 11 o'clock with the Queensland Council of Unions. Is it Ros and Michael and John? You're all here.

45 **MS McLENNAN:** Just John and I.

MR COPPEL: Right, okay. So we'll reconvene just before 11 o'clock so that we stay on schedule. Yes, thank you. For those that are interested, there's tea and coffee just outside the room.

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ADJOURNED

[10.36 am]

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RESUMED

[10.58 am]

MR COPPEL: Okay, we'll reconvene with the Queensland Council of Unions. Welcome. Thank you for your submission or submissions and if you could each, for the transcript, give your name and affiliation and then a brief set of opening remarks and then we'll get into Q&A. Thank you.

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MS McLENNAN: Thank you. My name is Ros McLennan. I'm the General Secretary of the Queensland Council of Unions.

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MR MARTIN: Good morning. My name is John Martin. I'm the Policy and Research Officer at the Queensland Council of Unions.

MR SPRECKLEY: My name is John Spreckley. I'm the Industrial Coordinator of United Voice, Queensland. We're affiliated union of the Queensland Council of Unions as well.

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MR COPPEL: Thank you.

MS McLENNAN: Well, good morning and thank you for the opportunity to have a conversation about this draft report. The Queensland Council of Unions is Queensland's peak union body. We represent the majority of Queensland unions which in turn are operating across a broad range of industries and occupational groupings. The number of employees who are members of Queensland Council of Unions affiliated unions is in the order of 250,000.

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The QCU did make a written submission, as did United Voice, based on the interests of employees in Queensland. Queensland workers have had substantial experience with what can go wrong when funding is cut to essential services in our decentralised state. That written submission was provided by the QCU and UV to the Productivity Commission so my address will be short.

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5 The QCU is opposed to any changes to the existing distribution of GST revenue that would leave Queenslanders worse off. Our submission goes to a range of factors associated with our state that makes the proper funding for public services and infrastructure essential. And finally, our submission traverses our recent experiences in Queensland when public services have been cut, purportedly because of a budget emergency.

10 As stated in our submission, there's a chorus of support for the existing system which raises questions in one's mind about why the inquiry is necessary and what motivated it in the first place. Recommendation 2.1 in the Productivity Commission's draft report appears to be contemplating a reduction in standards from full to reasonable equalisation. And the QCU supports the Queensland government's rejection of this notion and does so in the context of rising inequality in Australia. 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 here in Queensland where Queensland has steadfastly opposed further privatisation and sale of state owned assets.

20 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. Queensland is an extremely decentralised state. 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. Decentralisation brings with it an array of challenges, particularly for the delivery of public services such as health, education and transport.

30 On one scenario, estimates of the potential loss to Queensland from changes to the existing arrangements are in the order of \$1.5 billion which, in terms of service delivery, equates to the fulltime equivalent of more than 13,300 nurses or one third of the state's state school teachers.

35 Similar grim predictions could be made for other services provided by the Queensland government including child safety and transport. The absence of alternative employment prospects will mean that job losses in regional areas will have a worse impact than those in metro ones. It's not just the service delivery that suffers from cuts to funding but also employment.

40 Our Queensland Council of Unions submission uses Townsville as an example of how susceptible regional centres are to rising unemployment arising from funding cuts and economic downturn. Personally I have a strong connection with North Queensland. I grew up in a small cane

5 farming town called Ingham, halfway between Townsville and Cairns. I served for six years as a regional organiser with my union - the Independent Education Union based in Townsville - by helping workers build power in their workplaces and communities in the area from Cairns to Mount Isa, down to Sarina just south of Mackay and including Palmyra. So I'm acutely aware both through my childhood and my early years of work about the experiences of people in those communities.

10 Our submission also makes specific reference to the political environment in Queensland around asset sales. The opposition of Queenslanders to asset sales closely relates to the previous discussion about policy neutrality, but also provides for a political reality. As we stated in our submission, the significance of maintaining assets in state ownership in Queensland can't be overstated. We've got successive governments, both
15 my Labor Government and the Newman LNP Government to attest to how emphatic Queenslanders are about keeping public assets in public hands.

20 Also in terms of the climate of this state, the reality of climate change is that natural disasters are increasing and Queensland does face significant financial losses from these more frequent events. We included in our submission the fact that the recent Cyclone Debbie cost the state's economy \$2 billion and took \$1.5 billion from the state's treasury in the year ahead and previous to that it was Cyclone Yasi, so you know, on recent estimates, once every six years we've got an effect of that proportion on our economy
25 and budget as a result of natural disasters. We reiterate that it would be absolutely catastrophic if state revenue that's been placed under significant strain from those natural disasters in the last decade were further damaged by any reduction in federal funding.

30 Our submission also goes into some detail about the way in which the Newman government used a supposed budget emergency to justify savage cuts to frontline services and employment and this experience remains in the forefront of the mind of the Queenslanders who bore the brunt of those cuts. The Newman government also used that manufactured budget
35 emergency to justify repressive cuts to workers' employment lines. These concerns are not imagined, as they've been lived through recently by workers who don't want to see a repeat of the slash and burn agenda, justified however thinly by budget cuts.

40 Our submission also touches upon the recent discussion about low wage growth in Australia and goes on to assert that the suppression of workers' rights, as experienced in Queensland, contributed to the low wages growth and in conclusion, the union movement supports the existing arrangements. Queenslanders, particularly those in regional areas, rely
45 heavily on public services. Not only would there be a substantial drain on

the provision of essential services, but employment outcomes in the region would again be (indistinct) quality. 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 and we're happy to take any questions.

MR COPPEL: Good, thank you, Ros. I wanted to touch on some of the issues which our terms of reference ask the commission to examine. One is the equitable distribution of the GST; another is looking at the efficiency effects of HFE and the way in which the GST pool is distributed. Now it's a question that I raised earlier about equity and fairness, where some of the stakeholders in this inquiry have made the point that fairness also involves an element of providing reward for effort. That may be the context of a major tax reform, where our cameos have illustrated in some circumstances that that can lead to a larger redistribution rather than a proportional increase in the state's economic benefits from that reform effort.

This has been - particularly those that are critical of the HFE system - what lies behind statements that the system isn't fair. It also seems to lie behind statements that suggest that the system isn't working, that it doesn't have the integrity to win the acceptance by all jurisdictions. So I'm interested in getting your ideas on this notion of fairness, including an element of reward for effort or a reward for undertaking risk, and whether you see that HFE system can reflect a degree of reward for effort in the way in which it distributes the GST pool.

MS McLENNAN: I think the first point I'd make in answer to your question is the view that the current HFE has achieved its objectives without having a net negative effect on productivity and economic growth. It is shared by a range of stakeholders, in addition to the Queensland government and ourselves. It is shared by the Australian Chamber of Commerce and Industry, the Chamber of Commerce and Industry Queensland, Victorian government and the Victorian Trades Hall Council, and that's referenced in the Queensland Teacher's Union submission.

The other point I'd make is that Queensland is diverse and a decentralised state, including aspects like indigenous population, geographic difference, extreme weather and those with a disadvantage will always be hardest hit and certainly if more can be done with more, but more can't be done with less and then I guess the options that are canvassed to consult on and explore within the draft report do - those options do envisage a lessening of the monies that would be available to Queensland, either cutting it by \$1.5 billion which, as we said in our submission, would be just catastrophic. So I think that most probably monies need to be allocated to the foundation.

MR COPPEL: You may be familiar with draft report, having looked at various cameos that try and understand better the implications of how the GST may affect the distribution on individual states and they showed that, particularly for one state moving to quite substantial tax reform on its own, that there could be significant disincentives to contemplate such a reform. That's not to say that there are other considerations. We accept that there are other considerations in any reform decision, but it's the sort of thing that, to the extent that there is such a disincentive, you would then expect that then not to be something that you would observe in practice.

That's a departure from some of the earlier reviews on the HFE system, so there's a demonstration that there can be a substantial inefficiency in the HFE system linked to that system. How do you - I mean, do you - my question I guess is in two parts. One is do you accept that analysis and (b) if you do, then how would you address that in the current regime where primacy is given, total primacy is given to the equitable distribution of the GST with no weight for some of these other effects that may come to pass because of the HFE system?

MS McLENNAN: Well we support - obviously we support policy neutrality and I guess in the same vein, we're concerned when there's been instances of that being undermined. Like in the instance where, you know, former Treasurer Joe Hockey encouraged Queensland to engage in asset recycling and wanted to get more funding from the feds for the services that the government would wish to provide to Queenslanders. So those kind of tactics I think are a concern and it's a reason why HFE I think is the best system that we have on offer at the moment and there are dangers in changing the way that's implemented from full to reasonable equalisation; dangerous in terms of the disastrous and negative impact on Queensland's ability to provide high quality and accessible public services to Queenslanders wherever they may live.

MR MARTIN: Yes, I guess the question presupposes some level of inefficiency that we may not necessarily agree with and I guess by nature we're going to err on the side of equity, you know, given who we represent and the policy positions that we advocate, that we will err on the side of equity over efficiency or so-called efficiency. I guess other unions that will be making submissions today can also talk about it, but whether or not the concept of efficiency in a public sector setting is necessarily what you're after and by that I mean there's different means of measuring efficiency.

In particular, I'm thinking of class sizes, when I look to the Teacher's Union, who are nodding in agreement. One version of efficiency would be to increase the number of students in a class, thereby reducing the overall

cost. That's well-known to have an adverse outcome for education. Similarly, you know, the patient to staff ratios in the nursing areas. So I'm not sure that we would assume or accept the assumption of inefficiency to start with.

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I did note in the discussion around, you know, the perverse incentives that are said that might exist. In all of my dealings with government, I've never heard it said - I've heard "no" on numerous occasions, as you could expect, but I've never heard it because no, that may have an impact on our GST revenue. You know, like on what we get from HFE. That's not in my experience a primary consideration as to the way in which governments make decisions, so I'm not entirely sure that there is a problem to be fixed and if the current system is providing for equity, then we would congratulate or be supportive of that system.

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MR COPPEL: I notice in your submission that you are supportive of the Queensland government's submission to the inquiry and in their submission they say that the Commonwealth Grants Commission aims for equalising to the same capacity, but in practice because of data deficiencies, the magnitudes of effects - a whole range of reasons - what the outcome is is a similar level of services; similar being something different from the same. Do you also agree with that conclusion in the Queensland government's submission to this inquiry?

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MS McLENNAN: We have said in our written submission that we support the Queensland government's submission to this inquiry. However, we think that, you know, if full equalisation delivers that level of service to Queenslanders wherever they live, then that's certainly going to be undermined and not enhanced by any envisaged option to move to a reasonable equalisation level. We'd also agree with the Queensland government's submission that any, you know, findings and recommendations may best be referred to COAG for discussion there as well.

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It's foundationally, I think - you know, fair minded that Australians are entitled to high quality and accessible public services wherever they might live; particularly a sharp point in Queensland given the decentralised nature of the state, but I think foundationally it's a point of principle.

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MR COPPEL: Well one of the other points that they make in their submission is that, given the way in which the system centres around distribution of a GST pool of tax revenue, any change by definition is going to have an effect; a positive effect on some states and a negative effect on other states and in that environment, you're not going to see any movement

away from the current system unless there's some degree of acceptance of some impacts that may affect the budgetary situation of a state or a territory.

5 That's a view I think that Queensland has expressed that is different from other state jurisdictions, but what it's saying is that there needs to be an element of give and take within reason. Listening to your remarks, you seem to be of the view that any change that involves a departure from the current distribution outcomes would be seen as something not to support, even if it had other - even if it represented improvements to the overall HFE system. Am I mischaracterising you? If not, how do you respond?
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MR MARTIN: I think in answering your question, our submission was far more focused and narrow than that of the state government. We don't have any first-hand knowledge of the CGC - that's the state government audit, so we're probably confined to those elements that would be about HFE and its potential impact on Queensland, particularly when you see the possibility of \$1.5 billion, you know, as a potential loss, whether that be over time or immediately, but that was more our concern and our concern, having regard to the recent experiences that Queensland workers have undertaken or have felt.
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MS McLENNAN: The catastrophe of the scope of that potential loss of monies, you know, to Queensland, what that would mean for people throughout the state in terms of the reduction in public services that would be required if the monies coming into Queensland fell by \$1.5 billion. Like, just catastrophic. You know, the Queensland Teachers' Union in their submission pointed to the fact that that equals a loss of one third of the current state school teachers.
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30 In the nurses' union submission the Queensland Nurses and Midwives Union said that that amount of money would equate to a loss of 13,376 nurses and so it's not just the loss of services to Queensland workers and their families all throughout the state, but it's also the impact of those job losses in the regional communities and the metro areas, but particularly in regional communities where there aren't a lot of other employment options. We used in our submission Townsville as an example of how not only were there savage job cuts as a result of the contrived budget emergency and subsequent sackings undertaken by Campbell Newman's recent state government, but there was also the closure of Queensland Nickel.
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45 At the same time that happened, the abattoir in Townville had 580 odd workers and they stood down for the longest end of season shut down ever because of a combination of climate factors and live exports. Like, when that happens, the economic impact on families certainly is there because there's not other job options that they can take up, but also the economic

impact on the town; you know, just small businesses suffer, the place suffers and this is what we're worried about, you know. They're looking at - - -

5 **MS CHESTER:** Well, maybe if we focus on it, because we totally appreciate the lens that you bring to our inquiry is more of an immediate lens in terms of if there were to be a policy change, what impact would that have on the state budget? So one of the reasons that we've been also afforded some additional time to work on this inquiry was to think through some transition paths.

10 I guess in that context, the numbers that you mentioned earlier, Ros, are kind of like - they sound like big numbers and they are big numbers, but it's important to see them in the context of overall revenues for the state government, so I think the numbers that you were quoting were, from our report, if you were to do a cold turkey immediate implementation of equalising to the average, that is what the fiscal impact would be on the state government.

20 Now, in our draft report we said that we would never contemplate nor recommend a cold turkey implementation, so if we were to look at it from a transition path perspective - and I'm sure that the council's obviously involved in making submissions to the Queensland government and you're very familiar with their budget processes, so if you were to look at it from a transition path perspective, what sort of percentage of revenue - if there is a one-off policy change - can a Queensland government digest or manage sustainably without it resulting in the sort of job losses that you're talking about?

30 **MS McLENNAN:** Look, I think with respect a slower path to less is still not palatable. Like, you know, as I mentioned earlier, the government can do more for working Queenslanders with more money, but they can't do more for working Queenslanders with less, so even if you're not envisaging a cold turkey option of that \$1.5 billion cut, any cut would be unpalatable and catastrophic, no matter if it's a slow burn or a quick burn.

35 **MS CHESTER:** Okay, well let's come to longer term in a moment, because there's two streams to the longer term, but if we just focus on the near term transition path, so say in the context of working with the Queensland government and doing a budget submission to them, if they were contemplating even - I think the cold turkey represents I think between 40 two or three percentage points of their current revenue. We already know that their own-source revenue bounces around every year from 7 to 8 per cent.

5 If they were looking at managing that over, say, a four year period - so it's not 2 to 3 per cent in one year; it's spread over that four years - what would you suggest to the Queensland government in terms of spending priorities, because I know when we hear these stories when we've been to other states and territories we hear it in terms of headline job losses for teachers and nurses and ambulance drivers and all the rest of it. Are there other areas of spending that you would see as being less priority from the council's perspective?

10 **MS McLENNAN:** Well, in terms of priority areas, the Queensland government has just won at the end of last year a majority government on the basis of campaigning for increasing the rebuild and restoration of frontline jobs and services, spending money on infrastructure projects especially in regional areas to create employment and growth, all while
15 protecting workers' rights and keeping public assets in public hands. So how they can deliver on that mandate that the Queensland public have given them with less money as a result of any option to decrease the amount provided, I fail to see how that's possible.

20 **MR MARTIN:** If I could just jump in there, perhaps the Chamber of Commerce, their pessimistic view would have been - was this morning, was that that would lead to an increase in other taxation at a state level and our pessimistic view is that it would lead to a cut to services and employment, but equally that would be an alternative way of recouping any lost revenue
25 that occurred from a reduction in GST revenue for Queensland, would be to increase other means of state revenue, which I would anticipate - and I would have no mandate to say that at this point in time, but I would anticipate that would be one of the possibilities that the union movement would advocate, rather than cuts to services and employment.

30 **MS CHESTER:** So that's a great segue to the medium to longer term and it's been suggested to us during the public hearings, including this morning from Griffith University and the Chamber of Commerce, that we've kind of been asked to look at HFE in isolation. That said, we did dare greatly
35 and make some - I think they were broader findings with respect to it. There's only so much heavy lifting you can do with HFE; you need to also look at the broader context of federal financial relations.

40 So longer term, if you would look at it through the lens of - I think the Chamber of Commerce suggested broadening the base of GST as a funding mechanism and I know Griffith University suggested in the context of addressing thereby vertical fiscal imbalance, so actually giving the states a percentage of personal income tax. So thus we move away from a zero sum
45 game and state has a different revenue base to play with.

5 So with HFE reform work considered in the context of the broader federal financial relations - and this is what's been put to us; this is not something that we've recommended or anticipated, apart from you can't do too much to HFE alone; you need to look at broader federal financial relations and addressing VFI in the medium to longer term. If it were cast in that context, does that change the way that you would view HFE? Thus it's not sort of the current small and zero sum game equation, which means - - -

10 **MR SPRECKLY:** The issue of currently, in a very simplistic way, the federal government is accruing more revenue than it requires to fund its services it's directly responsible for and the state governments have less access to generate the revenue for the services they need, so some money has to come from the federal level to the state policy level, so from our point
15 of view and if I give an example of some of the areas where our members work - such as in health services, paramedic services, as just one example - the demand on those services is actually increasing every year just through the nature of the client base of patient acuity and so forth and ageing population and the population density and all those things.

20 So if there were to be any changes to the existing funding that's derived from GST, just reason that the money will have to come from somewhere else. It's not going to be possible to trim or cut or slow the rate of keeping up with the services required for those areas of the population. Now that's
25 just a snapshot, but I'm sure that it's similar across other types of areas where the states are required to fund the services, so it's really - - -

30 **MR COPPEL:** And if that were to happen, if states were to increase their own sources of tax revenue, is that something - you said you would support that alternative, but is that - - -

35 **MR MARTIN:** No, what I said - I didn't say that anyone would necessarily support it. What I said is the Chamber of Commerce earlier today suggested that that would be a possibility. I said that that may be something that would be an alternative for a state government to look at and I would assume, without having any authority to say so, but I would assume that our policy position would be more likely for an increase in revenue rather than a cut to services. But I might also add, broadening the GST, I would anticipate
40 the concern there - particularly for lower income earners - is the regressive nature of the GST, so yes, that would be another means to obtain revenue, but it might not be particularly palatable to lower income earners.

45 **MS CHESTER:** That's why we were very careful to make it clear that that was suggested to us by others, not something that we had contemplated in our draft report.

MS McLENNAN: However, we would be enthused in terms of increasing tax revenue by, you know, more activity in terms of making sure the very rich pay their fair share of tax, major corporations.

5

MS CHESTER: Yes.

MR MARTIN: Or not cutting taxes might also be a method by which revenue could be maintained.

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MS CHESTER: Yes. Well, it's interesting because part of it is kind of like the VFI problem, which is kind of outside our scope of reference, so that kind of needs to be sorted. The other issue that Jonathan was focusing on earlier is we know that from the Henry tax review there were a lot of areas that were identified where states could actually be - by reforming their tax bases, would have actually greater revenue sources than they currently do, daring greatly with a move away from stamp duty to a broad-base land tax, which also has implications for equity.

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Where we're struggling is with the current HFE system there is, we've discovered through the cameo analysis - which is new and novel analysis - that there is a very material disincentive for the large states on the eastern coast to contemplate doing that, if they were to look through to what implications that would have for their GST distribution. So there's a couple of ways of looking at the revenue side of the equation and just through the HFE narrow inquiry, we've looked at that one. I guess we hear from many that states don't take into account the implications for their GST distribution of a policy change. I think from our seven months on this inquiry to date, I think we've seen enough evidence to know that states are very mindful of any policy change that would impact their GST distributions.

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So I think the cameos do really stand on their own merit as an example of what's referred to as efficiency, but then can flow through to revenue-raising capacities of a state, which is ultimately the budget envelope for delivering the frontline services that you're here to champion. Sorry, I'm just trying to help connect the dots to - people hear economists use, you know, dorky words like "efficiency" and everybody just thinks efficiency means more for less. It's actually about growing the pie of the revenue base at the state level.

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MS McLENNAN: Well, presumably without bumping into the policy neutrality that has to be foundational to it as well.

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MS CHESTER: Yes, exactly.

5 **MR MARTIN:** I guess we've gone to some lengths to describe our experience with being with this new inefficiency recently and that may have been the definition that you're looking at, but that certainly wasn't the one that was adopted by the Newman government.

10 **MS CHESTER:** It's a means to many ends, I agree. Does the Queensland government currently have an efficiency dividend in its year to year budget management? Is there an efficiency dividend required of the state agencies? Do we know what it is?

MR MARTIN: I was about to suggest that perhaps a more direct line of evidence would be to ask the QDE.

15 **MS CHESTER:** We will, thank you.

20 **MR COPPEL:** We will. And just one further point on raising own sources of revenue, one of the arguments that's consistently been put to us as a consequence of anything less than full equalisation or equalising to the same level of standards is that you would then create different fiscal capacity across jurisdictions and that would enable a jurisdiction to, for example, offer lower taxes to draw in business. The competition between jurisdictions.

25 We saw something similar to that many years ago with death duties in Queensland; removing them as a way of attracting people to Queensland. And that's seen as a risk from moving away from full equalisation, so my question is, when you consider that one of the implications would be to raise revenue, how do you see that risk of task competition? Is it real or is it
30 something that is there in principle, but likely to be small?

35 **MS McLENNAN:** I think it is probably a risk, that there are dangers, as we've expressed, you know, verbally and in our written submission, of changing from full to reasonable equalisation. We worry that - we believe that Australians, regardless of where they live, deserve high quality and accessible public services and we can see the risk that that won't be delivered from a worker lens, which is obviously the experience that we're
40 being to the conversation, from a worker lens.

45 Workers also want to feel that they've got sufficient resources and funding to deliver high quality public services to people in the areas where they work, both in industry and geography and cognisant of, you know, particular areas like indigeneity that you raised with the previous group making submissions. So for those reasons I think it's better to veer away from an option where there might be inherent risk in whether it does or

doesn't deliver and stick with the current way of organising HFE that is full rather than reasonable equalisation.

5 **MR MARTIN:** Of course, the potential would be for a race to the bottom. You know, that would be the concern if the states competed with one another on levels of taxation and then, you know, it would inevitably be a race to the bottom which would lead to a shortfall in funding and go back to where we started with our submission I guess.

10 **MR COPPEL:** Good. Thank you very much; we'll leave it at that. Our next participant is the Queensland Teachers Union presented by Kevin Bates. Make yourself comfortable.

15 **MR BATES:** Thank you very much.

MR COPPEL: When you are, if you could for the transcript give your name and affiliation and a brief opening statement?

20 **MR BATES:** Thank you very much. My name is Kevin Bates and I'm the President of the Queensland Teachers' Union.

MR NGUYEN: Giau Nguyen, Queensland Teachers' Union Industrial and Research Officer.

25 **MR BATES:** Thank you and good morning.

MR COPPEL: Thank you.

30 **MR BATES:** The Queensland Teachers' Union employees represent more than 45,000 teachers and principals in state schools and TAFE in Queensland. The QTU has been the industrial and professional voice of teachers and principals in this state for more than 128 years. I understand that members have received - been provided with a copy of our submissions, so I don't intend to go to the detail of that, but there are a few
35 comments that I would like to make. We don't propose any amendments to our written submission at this time and since providing our submission, we've had the opportunity to consider the submissions of the Queensland Council of Unions and we take this opportunity to endorse those submissions and the evidence that's been provided here this morning in
40 terms of the thrust of that information.

45 Over the last 30 years I've been a teacher, curriculum head of the department and union officer working in state schools throughout Queensland. I was elected in my current position as President of the Queensland Teachers' Union in 2012 and re-elected in 2015 and 2018. In

5 addition to this position, I am the President of the Australian Education Union Queensland Branch, a member of the Executive Committee of both the Australian Education Union and the Queensland Council of Unions. I represent the QTU on diverse forums on education within Queensland, nationally and internationally.

10 In addressing the specific terms of this inquiry, the QTU's evidence is founded on our collective expertise in education and public policy issues and our coverage of most teachers and principals engaged in public education, whether in the prep year - also called the foundation year in the national context - primary schools, secondary schools or TAFE. There are currently around 48,000 registered teachers working in Queensland state schools.

15 In Queensland more than 1,200 state schools cater for more than 550,000 students and there are another 200,000 students in almost 50 TAFE campuses. The Queensland state education system provides a high quality public service across the length and breadth of our state. Indeed there are schools throughout Queensland that operate in locations when there are no other services or facilities.

20 Provision of education services in Queensland consumes more than 24 per cent of the state budget. Our education system is growing rapidly and certain circumstances such as the progress of the introduction of the prep year around a decade ago will see abnormally large growth in student enrolments, necessitating a considerable boost in education spending across the remainder of the current decade and beyond. This expanded education spending will entail increases in both recurrent and capital investment. The Queensland education system will need to expand by between 3,000 and 25 5,000 additional teachers by 2030 to cater for the expected growth in student enrolments.

30 I note from media reports today that Treasury modelling in Queensland on a worst case scenario would see Queensland required to shed as many as 5,000 teachers. Based on experiences during the denial of two Queensland schools of 519 growth-based teaching positions under the Newman Liberal-National government in 2012 to 2015, the combined impacts of enrolment growth and forced workforce reduction would be catastrophic.

40 Another consideration arises because, coupled with this projection of a larger call on the state budget due to enrolment growth, Queensland has traditionally under-spent on education when compared with other Australian states. Queensland students experience significant disadvantage, cumulatively determined by factors such as remoteness, 45 school size, socioeconomic status, Aboriginal and Torres Strait Islander

heritage, diverse cultural and language backgrounds and a high instance of disability. The “No Mind Left Behind” report by the McKell Institute from October 2016 provides a comprehensive analysis of the disadvantage of young people and places Queensland third in the nation, behind the Northern Territory and Tasmania for the proportion of young people who live in educationally disadvantaged electorates.

Despite the inferior nature of the Turnbull government’s new school funding model when compared with the real Gonski needs-based funding model, Queensland will still be compelled by legislation to significantly increase state expenditure on education over the next decade. In short, any changes to the distribution of GST revenue that would reduce Queensland’s share will have a disproportionately large impact on essential public services provided by the state government. Such changes are therefore opposed by the QTU.

Alternately, responsibility for funding public services should continue to be allocated based on due recognition of revenue raising capacity. To be clear, neither does the QTU support any moves by the federal government to adopt greater control over or indeed take control of essential public services such as health and education. In closing, we thank the commission for the opportunity to make this submission and I look forward to answering any questions you may have.

MR COPPEL: Thank you. To start, one of the questions that we’ve put to previous participants in today’s hearing is this notion of reward for effort. There’s an element of fairness in part of the equity of the HFE system. I was wondering if you could share any thoughts that you have on this notion. It particularly relates to sort of quite significant reforms where there could be a tangible reward or risks involved. I’d be interested in whether you think that notion has a role to play within the HFE system or a bigger role to play.

MR BATES: Our concern about the notion of reward for effort is that it’s usually couched in terms of a return that does not necessarily generate positive economic outcomes for all individuals within the community. Our concern goes to the fact that we have a significant need to lift the tail, as it were, in an education sense, ensure that all people have access to high quality services. One of the things that falls short in terms of reward for effort is often an understanding or an expectation around the notion of equality, that that equality somehow means treating everyone equal. Our view is that there are times when there should in fact be differentiated outcomes in order to ensure that those who have the greatest disadvantage can reach the expected level of opportunity.

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5 There is then the issue about the difference between opportunity and
reward. For us, there's a significant issue about policy settings that are
determined by the notion of rewarding particular alternate policy settings,
you know, the federal government might deem to be appropriate and in
particularly in the context of what has been in recent years fairly significant
swings based on partisan issues between the intent and effect of those policy
settings. So from our - I guess our considered opinion would be that reward
for effort has in its most neutral sense potential, but unfortunately it's
coloured by the partisan impact of policy settings that can create, in our
10 experience, quite significant negative consequences, particularly for the
most disadvantaged members of our community.

MR COPPEL: So the way we're thinking about this is in terms of sort of
15 a reward for effort, not among individuals but specific jurisdictions and then
it's up to that jurisdiction to determine how they then allocate those
beneficial responses from either reforms or other policy measures. So it's
not - we're not talking about the individual, but it does sort of bring me to
another analogy that is often put in terms of consultations that we've had
for this inquiry that relates to the way in which state grants commissions
20 provide a level of capacity among local governments to provide local
government services and there the pool is much smaller so there's nothing
like the full equalisation that you have with the GST pool, but it does draw
out some of the analogies of what would be potential consequences from
something which is less than full equalisation and it is a quite substantial
25 departure and the way in which the system works is not too different from
having a relativity flaw.

I put to you as a question: is that a fair analogy to make when looking
at the broader HFE system and if it is, sort of what implications do you draw
30 from that for the broader HFE system?

MR BATES: One of the fundamental issues is obviously that the rapid
expansion of need in public services has outstripped the capacity for
governments to pay. It seems reasonably clear that there is a significant
35 unmet need. So the context here - and I guess this is where we would depart
slightly from our colleagues in the Council of Unions - we have for a long
time held the view that states can do more to raise additional revenue to
support the delivery of public services.

40 That's not without political cost; we absolutely understand that
decisions are made based on the reality of how those policy decisions will
impact on the ability of the government to continue to be the government.
So we have to accept that reality but that doesn't, in our view, prevent us
from saying that there are opportunity costs that come with decisions about
45 policy in relation to revenue raising.

5 So in the same context, whether or not the analogy of the State Grants Commission, you know, in a smaller scale distributing on the basis of the capacity of the state as an analogy of the broader system is problematic insofar as it seems to us that there are inherent difficulties in the nature of the federation and I think that goes well beyond the conversation that we're having here, but I do note in the draft report that it is a consideration in terms of the role of HFE in attempting to address, you know, the VFI and some of the other consequences of the nature of the federation.

10 Indeed, it couches it in the terms of, you know, the role of a comprehensive national government would be to ensure that there is a capacity to deliver services, quality public services, wherever they might be in a country and that, you know, the role of those lower levels of government would be seen quite differently obviously in that context. So I don't think we can divorce - sadly, we cannot divorce ourselves from the reality of history and where we find ourselves in the terms of the federation, so I know there's been a conversation and I've been a part of it myself over the past decade in terms of rethinking the federation.

20 You might have noted from my brief comments that we don't support the moves that were put on the table at the time in terms of redistributing the responsibilities of the states and the federal government in terms of the current constitutional divide, but by the same token, you know, we do acknowledge that there are limitations to the capacity of our economic system to deliver on the basis of some of those realities that have been generated by the nature of the federation. So from our perspective it's about doing what we can through policy settings to mitigate against the most negative consequences and we would like in an ideal world obviously to eliminate those negative consequences to ensure that there is enough money in every community to deliver the public services that people deserve.

30 The choices that governments make are about prioritising and they prioritise their budgets and they prioritise their revenue raising based on a range of competing factors and so in that context I guess my concern would be that - not necessarily about the scale or about other reasons for the analogy not being effective, but rather there is a broader and overriding issue that relates to the very nature of the federation that impacts on those issues.

40 **MR COPPEL:** One of the specific proposals that's actually being put on the table, to give some notion of reward for effort - I'm putting words into the CGC's mouth here - is the idea of providing a discount on increases in revenues. Now I'm interested in getting your view on - so that would represent less than full equalisation. There are many other things that the

CGC does that actually makes that aspiration - the outcome different from the aspiration, but on that specific idea that's being put on the table by the CGC of a discount of marginal revenues, do you have any views on that and what it would achieve?

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MR BATES: I would just I guess urge some caution. I mean, we may be getting a little bit out of my scope of expertise. I have a view, but it's not one that I would urge you to rely on as categorical in terms of, you know, where I come from in my expertise. My view goes to the issue of the fact that there is I think a level of concern regarding the political realities that each jurisdiction has to contend with and so by that I mean that we cannot assume, as is often the case in a perfect market sense, that people are fully informed when they make decisions, that they do so with the appropriate motivation and best interests.

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There is a whole range of competing factors that impact on decision-making and my concern is that there is often a disconnect between the theoretical underpinnings of the sort of circumstances that you describe and the reality that's faced by those that are making decisions in a public policy context. So it's particularly important to understand I guess that, you know, coming out of three years of an LNP government between 2012 and 2015 there are a certain set of policy principles in Queensland that are so intolerable to the community that they are political poison and so as a context, that has to be taken into consideration in terms of any decisions that the Queensland government makes.

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Is that of concern to the Commonwealth Grants Commission or to the federal government? Probably not. But it's a reality that can't be denied in our particular context and I am sure that in terms of Western Australia currently dealing with the aftermath of the Barnett years and so on, that each of the states and territories would perceive there to be those unique state-based characteristics that drive their particular motivations in a public policy sense.

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So my concern I guess goes to the fact that there has to be some overarching set of principles that we're trying to establish and where we're at at the moment in terms of HFE being about equalisation is crucial in terms of attempting to get to the point. I note your comments before about similar but not the same levels of services; again, a recognition I think of reality as opposed to purist policy settings. That's still a worthy goal in terms of understanding that those services will by their nature be different in certain communities because of the nature of disadvantage, isolation and other considerations that impact on their delivery.

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5 So there is a real issue in attempting to divorce the conversation from
the broader reality that's faced in individual jurisdictions, but
fundamentally has to come back to what are the agreed principles that the
federation as a whole accepts and is willing to go forward with and it's only
10 through some confidence in those areas - and I go back to your reward for
effort comments. You know, there does seem to me to be a strong potential
for a race to the bottom, where we set up a circumstance of competition
between states and territories to try and enhance their revenue base from the
federal government through some sort of perceived reward for doing things
15 differently or better that doesn't necessarily result in better outcomes for
the populace. So there has to be a balance of those things.

MR COPPEL: When you talk about agreed principles for the HFE,
community acceptance of those principles, if you look back over the history
15 of HFE in the last couple of decades, that's very much been a role - well,
that's very much been guided by how the CGC has established its
frameworks for the way in which it reports to the government. It has set
the standard of the same level of - equalising fiscal capacity to provide the
same level of services. It's not something that's been necessarily agreed
20 with within a broader process. Do you think there is a case then to initiate
a forum in which the principles and the goal of HFE is discussed and agreed,
which may be different from the current objective that the CGC uses for the
purposes of its reports?

MR BATES: My response is couched in the terms of my experience in the
25 education sector and what's been happening nationally over quite a number
of years, but it's flavoured by a bit of disappointment with the conversations
that have occurred resulting in what appear on the surface to be laudable
goals and appropriate motivations but fail in terms of their implementation,
30 which is so often the case in a public sense.

So I am concerned that even with the concept of a forum, that - and
COAG and others exist already that might provide an appropriate
35 opportunity for, you know, beating out a policy position that could be
carried forward, but the reality here is that the federation in this particular
sense operates on goodwill and there is a very large concern about the fact
that, despite agreements, there's always an opportunity for the states to vary
or misinterpret or reinterpret what those particular agreements might mean
40 in terms of implementation.

So I guess at a level I've just argued against my point, but that's the
reality that we have to be conscious of. We should set goals and until there
is that motivation, perhaps a pure motivation around ensuring that all
45 Australians enjoy a quality standard of public services and enjoy the
benefits of what our citizens in metropolitan communities, for example,

enjoy, then if we can agree on something like that and we start working towards that as the goal, then there is a greater capacity to deliver for all Australians as a consequence.

5 **MS CHESTER:** A couple of quick questions, if I may. Before I forget, the efficiency dividend, you're our man who knows the answer to this one?

MR BATES: Yes, indeed. Well, specifically in the context of education I'm acutely aware of it. In my job I'm responsible for analysing the budget
10 and Mr Nguyen on my right here helps to write the budget submission. Last year was around about \$24 million was the efficiency dividend for the Education Department in Queensland. When you consider it's a part of the \$11.8 billion budget, it was a very small efficiency dividend.

15 It was much larger under the previous LNP government and I think - I hesitate to use the word "token", but there's an element of ensuring that there was at least some consideration contained within the budget papers and with a budget of that size, of around about \$11.8 billion in state education, that that sort of efficiency dividend is reasonably easy to achieve,
20 but it's there nonetheless, rather than having been taken out completely, so there may well be - there are other efficiency dividends for other departments. I'm not aware of the exact numbers of - - -

MS CHESTER: That's okay. We can ask colleagues from the Queensland
25 Treasury this afternoon, but I was just trying to work out whether there was like a global efficiency dividend across all portfolios, but it sounds from what you're saying, Kevin, that's not the case.

MR BATES: My understanding is it's set on a department by department
30 basis.

MS CHESTER: Okay. I guess just while we're on that point of different
35 portfolios or different areas of expenses, so as you know at the moment the way the GST monies are distributed to the states it's this mechanism of building up assessed expenses and looking at assessed revenues to come up with fiscal capacity, but largely it's about making sure that all states can meet the same level of their assessed expenses. The money is given to states on a fully autonomous basis, but when you look through to how the monies are spent you can get a little bit of an idea as to what the state's spending
40 priorities are, give or take if a state's a little bit more efficient than the CGC's expecting them to be, but an under-spend may not be the end of the world.

45 How do you sort of view that through the lens of what might be the impact of any change to HFE, even given the order of magnitude that we're

looking at, if in the areas that you're interested - in education, so in both of those areas, for schools and post-schools, what the state government spends is less than the assessed expenses?

5 **MR BATES:** That's an ongoing concern for us and a matter that we
continue to pursue with the state government. The reality however is that,
as you say, it's about priority setting within the state budget. We would
expect that issues such as the one I raised about the new school funding
10 model that the Turnbull government introduced, that have now legislated
set expectations around expenditure, will change that. We don't think that
was the best way to go about it, but nonetheless it will change state spending
priorities.

15 The fundamental impact of that however is that there will be reductions
in expenditure and other things in order to compensate because there is a
fixed pool that's available, without increasing state debt. So there is a very
real issue here about if we go down that path and legislate in a whole range
of areas - that is, the federal government attempting to dictate to states in a
20 range of areas like health, like education; big budget items, that they must
spend a certain amount - we begin to get to the point of what's the point of
having a state government in the first place?

25 So my concern I guess goes to the notion of the autonomous spending
is absolutely relevant. It is and should be up to state governments to
determine and there are those of us who will continue to fight the good fight
to ensure that our particular area of public policy gets the funding that it
deserves. I don't support therefore that notion of legislation at the federal
level determining how much money should be allocated to a particular area.

30 But having said that, we're again in this issue I guess of trying to deal
with HFE and I acknowledge that you talked about the notion that there
needs to be a bigger conversation; it can't just be about HFE in isolation,
but rather needs to perhaps be looking at financial circumstances of a much
broader base and the way in which, you know, the intergovernmental
35 financial relations can actually be better targeted towards building the
resource base of the states to deliver the services that they are responsible
for, because at the end of the day, by the nature of the federation, the federal
government has or at least should have accepted that the states have
responsibility for delivering education and health and given that they don't
40 have the capacity to raise revenue to the extent that is required to deliver
those services, there has to be a contribution from the federal government.

Those things appear to me to be the givens. It's then the details of that
that are much less certain and do tend to fluctuate on a fairly significant

basis in terms of a whole range of global impacts, national impacts and state impacts.

5 **MS CHESTER:** Okay, so from your perspective then if the HFE is cast in the context of broader federal financial reforms, looking at both VFI, so taxing abilities of the states, but also more importantly I think you've touched on and emphasised whereas others haven't this morning getting the funding responsibilities right, so there is that sort of cut-through to accountability.

10 **MR BATES:** Yes. I think importantly, however, our goal obviously, just to be really clear, is ultimately we need to see more money and better services, so I mean however that might be achieved, our view is that's the goal. So if the goal is reduce revenue raising and reduce services, then that to us is unacceptable. So in the context of more revenue, more services, then that's a good outcome and there could be a conversation in that broader sense around how monies are distributed, but it needs to be premised with that.

20 **MS CHESTER:** Okay. Part of the challenge that we have at the moment is our starting point. Indeed, if you were to rewind the clock any time over the last 15 years, some of the large states have actually been in favour of moving away from the current equalisation benchmark and standard of full equalisation to the highest state.

25 Historically Queensland's kind of been a net recipient sometimes and a net donor at other times, so if we were to fast forward the clock ten years and you know, touch wood we have a period of time with less natural disasters, which is what tends to tip you between being a net recipient versus
30 a net donor, it could actually be in Queensland's longer term net benefit to move towards this change, if you're just purely looking at it through the lens of how much of the GST bucket you get. If that were the case, does that change - because I mean we totally understand the focus from the unions has been on immediate transition: what's the impact on the budget?

35 **MR BATES:** I mean there is a fundamental principle that operates under a much more "what would we do" and that is, you know, to each according to their needs and from each according to their abilities. So I think, you know, there is a story to be told in what you've described in terms of that
40 transition at times between donor and recipient. But fundamentally it's about capacity, so rather than there being an imposed figure at an imposed level, that rather as circumstances have changed there's been a capacity for the system to respond and to create a circumstance where that doesn't have the sort of impact that we would be concerned about, you know, in the
45 Queensland context of that imposed difference in terms of the level of

contribution. So if you understand the subtle difference in what I'm saying
- - -

5 **MRS CHESTER:** Yes. No, I do.

MR BATES: So there is a difference between having a policy setting that allows for that sort of differentiation based on specific circumstances, as opposed to the creation of a policy regime that proposes an outcome that might have a lack of flexibility on that count.

10 **MR COPPEL:** Thank you very much.

MR BATES: A pleasure.

15 **MR COPPEL:** Our next participant is Sean Butler, representing Senator Peter Georgiou. So welcome, make yourself comfortable. When you are, if you could give for the transcript your name and affiliation and then a brief opening statement? We note that we have received a submission from you, so you may want to talk to some of those points; you may want to take them
20 as given.

MR BUTLER: Good morning. My name's Sean Butler. I'm from Western Australia and I'm representing Senator Peter Georgiou. We've made a submission to this inquiry before; he's sent me across to, I suppose,
25 explain our state's position or his position. The lack of structural reform of the GST is the single most important issue facing Western Australia at present. This is not about putting one state against the other or an "us or them" argument. It's about fairness, economic efficiency, what's best for the nation as a whole and encouraging the other states to develop their own
30 resources.

Western Australia only receives 34 cents for every dollar of GST it collects. Other states get between 89 cents and \$1.81. The lowest any other state's share has ever dropped to is 84 cents for Victoria in 1994. The
35 Productivity Commission Draft Report released in October last year concluded that the current system is under significant strain as Western Australia's share of the GST has fallen to an extreme low; extreme to the extent that Western Australians get just \$878 per capita, compared with an average of \$2,553. South Australians get \$3,671, Tasmanians get \$4,601 -
40 five times as much - and the people of the Northern Territory get \$11,000.

Under proposals from this commission, the current system whereby GST money is redistributed to elevate every state to the level of the strongest state should be dumped as to either an average level or the
45 strongest state level would be the benchmark. Under the average formula

proposed, Western Australia stands to gain an extra \$3.2 billion a year. Under the second strongest state level, WA would gain an extra potentially \$3.6 billion a year, so there's a lot at stake here.

5 Other states have argued this is unfair, but the proposals would still leave Western Australia subsidising the other states. It needs to be understood that if several other states had a small percentage cut in their subsidies from Western Australia it would translate into a significant gain for Western Australia compared to the very low share that Western
10 Australia gets now. This is an argument about the fairness and good economic policy. Again, it's not about us versus them. WA is not looking for subsidies, just fairness.

15 It's ironic that Western Australia, which has had progressive economic policies and contributes to 35 per cent of Australia's exports - more than any other state - is now being punished for its success. Our share of the GST collective has fallen from 95 cents in the dollar in 2007 to just 34 cents in 2017. Our state government, whether Liberal or Labor, are now under financial strain to the extent that they have lost its AAA credit rating and
20 have had to cut back on core services and go into debt. Meanwhile New South Wales, which received almost three times our per capita distribution, is in surplus so much that they can afford to bulldoze their 18 year old Sydney Olympic Stadium and rebuild it. What an extravagance.

25 The current HFE system, which operates in an extreme fashion, is not adopted to this extent anywhere else in the world. It embodies the socialist ideal of redistribution of wealth to the extent of trying to make everyone equal. Nothing kills human enterprise faster than that. I've just got some figures on the share of Australia's export incomes. It's from the Australian
30 Department of Foreign Affairs and Trade. Western Australia provides 35.2 per cent of Australia's export income and yet our share of the GST is between a quarter and a fifth less than other states. Tasmania, which provides 1.2 per cent of Australia's export income, receives five times the distribution.

35 We just want to make the point that Western Australia is more than pulling its weight but is being unfairly, we believe, acted against. Give Western Australia a fair share of what we earn; the result will be greater investment and greater development of the nation as a whole. We would
40 all be better off.

45 What others say: last year's CommSec states that the states report showed WA to be the lowest of all states. This is an unbelievable situation, considering the state is by far the leader in export earnings. New South Wales was top spot; Tasmania fourth. Western Australia rated below the

national average on all eight indicators and trailed the nation in terms of economic growth and construction work. Meanwhile there is a construction boom in the eastern states, powered largely by the flow of funds and the huge grants from Western Australia. This is simply not sustainable, economically or politically.

The Chamber of Minerals and Energy claim that the big iron ore miners pay \$19 per tonne in taxes and royalties. \$19 per tonne. \$12.65 goes for federal company taxes. \$5 of that is effectively redistributed away from Western Australia under the current GST formula. Just \$1.23 of that \$19 stays in Western Australia. Under current arrangement, a state that encourages mining and development - let's say Western Australia - will find the benefits of any additional royalty revenue short-lived. After a few short years, the gain in royalty income is effectively distributed away to other states, so WA is effectively no better off after funding the cost of investment and infrastructure for these projects, as well as having the associated labour shortages and cost pressures as a result of these investments.

It's been reported over the years that the resource development from Western Australia has had to build an extra infrastructure equivalent to that of the entire state of Tasmania. The state government has had to fund extra roads, freeways, ports, hospitals and schools as a result of the economic growth due to the development of our resources. Both Labor and Liberal state governments are in positions where it's impossible to balance the state budget with billions of dollars being diverted out of the state. The state government of Western Australia is now in a position where it has to cut back on core services, even though the state as a whole provides the largest portion of Australia's export income.

No matter how you look at it, the system is unfair and it is not in the nation's best interests to keep it going as it is. Under the current system, states do not need to strengthen their own natural resource industries because they know they can sit back and wait for the GST distribution to bring them up to the leading state's capacity every year. If New South Wales and Victoria developed their onshore gas resources they could create billion dollar industries and inject a million dollars into their own government state revenues. Imagine if states like Queensland were allowed to build dams and irrigate inland areas or further develop their natural resources such as those in the Galilee Basin. How much extra revenue would be generated?

Under the current unfair system we have effectively removed the incentive for states to develop their resource industries and the nation as a whole suffers. There needs to be bipartisan support for change. BHP has said that the current system - to allow WA to keep a greater share - has said

5 that changing the current system to allow WA to keep a greater share will generate - would benefit jobs and further investment in resource industries in regional communities. The head of BHP, Mike Henry, has been quoted as saying reform would not only be good for WA, it would be in the nation's interest.

10 Research by the Federal Parliamentary Library shows the annual carve up of GST has not only hit WA's state budget but has also hit our jobs market. Since 2001 Western Australia has lost a staggering \$41.5 billion to other states and territories when compared to if the GST was distributed on a per capita basis. According to the library, about 35 per cent of that or \$15.5 billion would have been spent on job-creating infrastructure. This could have generated 32,000 full-time jobs. What a wasted opportunity.

15 While Western Australia has been building one of the world's showpiece mining industries the benefits of it have been redistributed to those states who have not done as much hard work. Victoria has been rapidly shutting down its mining industry and has been the biggest beneficiary, reaping an extra \$18 billion. The Western Australian Chamber of Commerce has argued that Australia's GST should be one that encourages every state to develop their own economy and pursue tax reforms that stimulate growth and increase the size of GST, benefitting every Australian. Every state should be encouraged to stand on its own two feet and if changes are not made, the national economy could suffer as a result.

20 The Institute of Public Affairs in a research paper released in November 2017 stated that there is no justifiable rationale for jurisdictional equalisation: "Equalisation negatively distorts incentives in several ways. It reduces the incentive for mobile factors of production such as labour and capital to move to higher productivity locations and thereby imposing efficiency costs on the national economy. It incentivises state governments to avoid important economic policy reforms and can - and encourage net recipient states to develop a dependency on the Commonwealth government. If the WA government has its finances strangled any further, the state won't be able to provide the infrastructure and services for the next boom; the whole country will suffer as a result. Is that what we want?"

40 In relation to one of the other submissions to this inquiry, Saul Eslake made a submission. He's a very well respected economist, but his views differ from the findings of many other economists. He states in relation to proposals to equalising cuts to the second strongest state or average: "It is difficult to think of any valid reason why some states should be thus advantaged, especially considering that its superior fiscal capacity is largely the result of luck. That is, having been endowed with uniquely rich

resources, the value of which have been greatly enhanced by increased demand for those resources from the world's most populous nation, being China, rather than that of consequences of policy decisions made by the state as a whole."

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This statement is an insult to all Western Australians. Western Australia's superior fiscal capacity is not the result of luck; it's the result of forward thinking by successive state governments, premiers - including Charles Court, Geoff Gallop, Colin Barnett - and entrepreneurial businesspeople like Lang Hancock, Andrew Forrest and Gina Rinehart, to name a few. Other states have huge untapped natural resources, which for political reasons are not being developed. If other states want to lock up their resources and have less productive policies that's their choice, but they should not then come begging for help from Australia's most progressive state.

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Other economists: independent international academic studies from some of the world's top universities, indicate that revenue transfer systems like the current GST system are not in the nation's best interest. I quote a paper from the London School of Economics and Political Science and Stanford University, "The fiscal interest approach: the design of tax and transfer systems" and here are some extracts: "Effect on promoting growth and development: transfers to sub national governments such as state governments are typically set by a formula that comprises a series of weights for different criteria including economic and demographic characters such as income and population", much like the Australian current HFE system.

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"However the attempt to correct horizontal imbalances by allocating more transfers to poorer regions often means that these transfer systems exhibit poor responses to locations that foster local economic growth and sometimes can even produce completely adverse incentives." In other words, they achieve what they're not meant to achieve; go in reverse.

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MR COPPEL: Can I just interrupt, because I know we've got a limited amount of time and we would like to ask some questions, if you could wrap up the - - -

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MR BUTLER: Yes, yes. Okay. I'll sum up then. So basically the other economists were saying the same sort of thing. I was going to go on and say what our politicians are doing, so politically - it is a hard one politically because obviously if we get more, they get less, but our argument is about growing the pie, making more money for everybody. I'll just sum up the last paragraph I've got, the last little bit.

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5 The Western Australian economy is suffering as a result of the current system. Billions of dollars have been siphoned out of the state and the state government now has to cut back on core services, including hospitals and schools. Western Australians are justifiably outraged by the current system. There are articles in the media almost daily about it and the general mood is that we are being ripped off and that neither of the two major parties cares. If changes are not made, this will lead to further economic stress and greater voter dissatisfaction. New parties are being formed to take up the issue and voters will go to alternatives who offer genuine change.

10 As a nation, we should abandon the system that rewards less productive states and their governments for placing low priority on economic development and development of their national resources. The current distribution system is broken and it's in our nation's best interest to fix it, not just for the good of Western Australia but for the long-term good of all Australia.

15 **MR COPPEL:** Okay, thank you. Let me begin, because you mentioned several times that HFE is about fairness.

20 **MR BUTLER:** Yes.

25 **MR COPPEL:** You've mentioned that in your submission as well and that this lack of fairness is sort of compromising, undermining, public confidence in HFE. But can you elaborate a little bit more on what you have in mind in terms of fairness, what is fairness and - - -

30 **MR BUTLER:** Yes. I've listened to some of the other submissions and it's not about us and them. We're not trying to - I don't think anyone's saying that we want to penalise other states. But I think you asked a question of one of the others about reward for effort. We want to create - I think to make the country a better place, if we make the pie bigger it's better for everybody. So at the moment we've got a certain pie. Western Australia is generating a fair bit of it and it's being siphoned off. If we can make the pie bigger, there's more money for everybody because at the end of the day, schools, hospital services, it all gets down to money. So if other state governments are encouraged to develop their resources, to develop their industries, the pie is bigger.

40 So I think that in the long-term is much fairer than having the eastern states relying upon a resource boom from Western Australia. What happens if the resource boom ends? You'll be dependent on us generating this huge amount of money. What happens if one day it dries up? Shouldn't we be developing other industries and other resources in other states? Wouldn't that be in the long-term better for all of Australia? So in the answer to

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fairness, I think - looking long-term, I think if you want fairness you've got to look at alternatives.

5 **MR COPPEL:** I mean, South Australia is a state that's got - what is it, natural - all the states have some to different degrees, natural resources. Queensland is also very well endowed with natural resources. It's been put to us that there's nothing in the HFE system that is itself stopping indeed very active promotion of natural resources in jurisdictions other than WA, except WA is very fortunate; they've got a lot of them.

10 **MR BUTLER:** Well that might have been put to you, but the fact is if the other states had severe budgetary constraints like Western Australia has got, the state governments there might be more incentivised for things to happen. I mean, there's only a certain pot of money and if you're short of money you've got to cut back services, so Western Australia has had some progressive governments, both Labor and Liberal, in the past and we are reaping the benefit of that, but the fact that our economy is so - you've got to ask why is the Western Australian economy so successful?

20 It's not just its - you know, the government has got a deficit problem, but that's because the money is being siphoned off. But if other governments were under budgetary constraints too, if they had less money, they might be more inclined to - I think you've got to incentivise the governments to both develop their resources and to be fiscally responsible.

25 **MR COPPEL:** So can I ask you then what you would then have in mind as - what do you see as the objective of HFE? Do you see a role for HFE?

30 **MR BUTLER:** Yes, I see a role. Look, I think - I don't think anyone wants to see an Australia that's divided with the rich and poor and you know, disadvantaged, so I don't think anyone wants that. But I think that the extent of the redistribution, it is higher than - according to what I've read - than in any other country in the world, the way it's being redistributed. You've proposed several models, either on the second most or the average.

35 I think that would potentially be fair. The bottom line is it needs to be changed.

40 The problem is politically it's a hard stop because you're going to be screamed at, you know, if you do change it, but I think the bigger argument is what's best for Australia. We don't - I mean, talk about schools being cut back. You know, we're cutting back schools in Western Australia. This is on the paper coming over on the plane. Schools being shut down. You know, we're going to be another \$348 million worse off this year. There has to be some sort of change, whether it's - I mean, I would think one of

the two options you put up, the average or the second best, but they're fairly significant changes.

5 **MR COPPEL:** And that's been again put to us this morning that the impact of those options, including equalisation to the average, Queensland can be in the order of one and a half billion. Do you have - if it were cold turkey - and one of the areas that we're looking at for the final report is questions of implementation and transition - do you have any views on how changes to the HFE system could be implemented in a way that minimises those
10 impacts or provides a buy-in to change?

MR BUTLER: I'm not an economist; I'm just going on what I've read and what a lot of people have told me. Obviously if it was cold turkey that could create some problems, so maybe it's something that's phased in. But
15 you know, the bottom line is, as terrible as it would be if other states lost some money, Western Australia's economy is suffering. Maybe there's a phase-in period that - I don't know, but you know, ultimately I think it's in the nation's interest over the next few years to change the system; maybe not overnight, but maybe it's phased in somehow.

20 **MR COPPEL:** One of the points you've made that's particularly affecting WA at the moment is the low relativity and part of that is linked to the fact that the way the calculations are made, there's a lag involved. There has to be some form of lag involved. And so during the boom years you argued
25 WA was receiving more than what it would have been than if you calculated it on a year by year basis and it's just re-equilibrating. That's something that every jurisdiction that knows how the system works can take that into account in its budget planning. But you're using that as an argument against the system itself.

30 **MR BUTLER:** Partly.

MR COPPEL: Do you think - I mean, why was it not possible to be able to at least anticipate that those lags would unwind themselves and that
35 would be a negative consequence for GST?

MR BUTLER: We're talking of lags down from, what, 80 something cents to 30 something cents to the dollar over a few years, so we're talking about significant drops. They're very significant drops. And we're talking about
40 significant mining downturn. I mean, Western Australia was a very big peak and it was a significant downturn. We're in the ironic position now where as a result of what's happened people are actually leaving Western Australia. The economy over there is almost in recession, whereas it's booming over here. I come from Perth and it's Sleepy Hollow at the

moment. Over here there's cranes everywhere and I think all this money is coming from Western Australia.

5 Obviously there's a lag, but I think there's a whole lot of issues that have to be addressed, but the size of the drop, I don't think anyone could have anticipated it and I mean, what can a state government do? A state government can't just - we can't just shut down schools and hospitals. We're in the situation we've had to go into debt to keep things going.

10 **MR COPPEL:** Well, the lack represents about \$7 billion, the sort of \$7 billion more that was paid. That was one aspect of it. The other is that it was predicted. Western Australian Treasury actually did a pretty good job of predicting what its relativity would be. That still leaves the per capita level of revenue for WA much higher than it is - - -

15 **MR BUTLER:** Even if it was predicted, what is a state government to do in a state that's growing its economy? There are people coming into the state during the mining boom. People have knocked various state governments and said why did Colin Barnett build a new hospital? You know, but what's the government to do? Imagine if he hadn't built the new hospital. So he could have cut back years ago and we wouldn't have our new hospital, we wouldn't have our freeway extended.

25 In fact, if he had done that, there's a counterproductive argument that if we'd cut back years ago we now wouldn't have the infrastructure and you now wouldn't have the resources flowing into the states, so it's a little bit of a catch-22. If you want a state to grow, it needs the money to develop the infrastructure. When people are coming into the state - we had at one stage 1,000 people coming into the state a week.

30 **MS CHESTER:** So Sean, you've obviously been a close reader of our draft report.

35 **MR BUTLER:** Yes, yes.

MS CHESTER: There's a very frank exposition of state budget management by the Western Australian government and the role that that plays in the WA government's current budget position. Is there anything in that fact base that you disagree with?

40 **MR BUTLER:** Look, there's arguments that the Western Australian budget hasn't been properly managed, but I'm looking at the bigger picture. I'm looking at the bigger picture of a sudden drop off - - -

5 **MS CHESTER:** Sorry, can we just go back to the question, because a lot of what you're talking about is the current WA government's fiscal situation, which is contributed to by two factors: one, the current relativity, but the overriding factor is actually the starting point for the budget, which is a function of previous budget management, so we'd kind of like to focus on evidence, so is there any additional evidence or anything that you think that we've gotten wrong in that exposition of the WA - - -

10 **MR BUTLER:** No, not of the actual - - -

15 **MS CHESTER:** Okay. All right. So I guess the other issue that I had that I just wanted to get a better handle on is your use of the term "subsidy". We use the term "subsidy" quite a lot as dorky economists in terms of how industry assistance occurs through tariffs and taxes and grants and the like. I'm just trying to work out - and we also suffer from people use it in quite a pejorative way, so we're very careful when we use it that we use it when it should apply. I'm a little unclear as to why an agreement was struck between state and territory governments to divide the GST bucket up on the basis of HFE and the way the CGC does the formulas, how following that system now results in a subsidy? Can you just talk us through the logic of that?

25 **MR BUTLER:** Well, maybe the word "subsidy" is a bit flippant. I'm talking the talk of the street in Western Australia, so obviously there was an agreement made. I suppose one question I'd have to ask is, what if it had gone the other way and one of the other states was subsidising Western Australia to the extent that they had to cut back on services? We just feel as a - the people in - there's a general feeling in Western Australia, no matter what side of politics you're on, that the system is unfair. So "subsidy" is probably the wrong word. It was agreed on years ago, that's right, but I don't think anyone would have foreseen the outcome.

35 **MS CHESTER:** Well, I think we showed that the WA government actually did a pretty good job of forecasting where the relativities were going to go, but I do understand what you're saying, that if people don't understand what HFE is and how the system is meant to work, then any departure from equal per capita distribution, if you don't understand what HFE is and how it's meant to work, could look unfair, which is I guess what we're struggling with, is we've got a system that was agreed between state and territories was to distribute it on this basis. There's an objective behind that basis. And now - - -

45 **MR BUTLER:** This is maybe irrelevant. When John Howard brought the GST and it was advertised as a fairer and better system, I think at that point it was almost dollar for dollar; it was very even. And you know, Western

Australians voted that and thought, well, that's fair enough. But if John Howard had gone to that election and said we're bringing in a GST system and Western Australia will get 30 cents in the dollar, no one in Western Australia would have voted for it. So I know what you're saying, but at the same time it doesn't - the counter argument, whether you talk about fairness or not, I'm talking about trying to grow the pie for all of Australia. I think that's probably more where we're coming from.

MS CHESTER: So WA today is still the fiscally strongest state in Australia - - -

MR BUTLER: Yes, on export services.

MS CHESTER: Well, overall, as assessed by the CGC as the fiscally strongest state and - - -

MR BUTLER: Then how come its economy is in almost a recession compared to the other states?

MS CHESTER: So it's in terms of fiscal - well I think there's an important distinction to be made between a mining investment boom and a mining boom and indeed, this is one of the issues that we've discussed at length when we went over to Perth and with people like the WA Chamber of Commerce and Industry. How long is that fiscally strongest position going to remain in place and it looks like it is for the foreseeable future that WA will continue to be the fiscally strongest state, because albeit the investment has now come off, but the iron ore is coming out of the ground and the royalties are being earned off that ore base. So if HFE is about equalising fiscal capacity and WA is going to be the fiscally strongest state for the foreseeable future, do you see I'm - - -

MR BUTLER: Yes, I do. Is it fair to - the whole argument of bringing everyone to the same level, is that not discouraging things? If you had one state that was stronger than the others, wouldn't people think - just for example, if Western Australia was allowed to take some greater benefit of what was happening over there, more people would be coming to Western Australia, there would be greater money there to spend on greater development and guess what, the pie would probably grow. I think any system that - it's almost Communist. That's exaggerating it, but trying to make every state equal I don't think that's economically - the economists themselves say it's not a system that's particularly good.

MR COPPEL: Equal capacity.

MR BUTLER: Yes.

MS CHESTER: Yes.

5 **MR COPPEL:** I think many of the recommendations in the draft report get to addressing a lot of the misunderstanding about what HFE is and how it's actually conducted is extremely complicated. So those sort of governance type reforms, which I think by and large have been largely sort of endorsed, but I'd be interested in getting your view on those specific reforms that we've made in the draft report in the final chapter.

10 **MR BUTLER:** So are you talking about the equalisation to the equalisation levels or - - -

15 **MR COPPEL:** No, I'm talking about reforms that - a role for the CGC to better explain the outcomes of its calculations and what the purpose of HFE is, as it is today. A better explanation of what it's doing and why it's doing what it's doing, so you can see a similar analogy with the central bank, Reserve Bank of Australia. It's been given the objective of deflation at a steady rate. It then communicates in terms of explaining why its policy decision on the interest rate is such and such and the factors that are influencing the deliberations. It's a similar analogy that is suggested that could be done, both by the CGC and a stronger leadership role played by the Commonwealth and the state governments.

25 **MR BUTLER:** I'm not an economist; I'm an advisor to a senator, so I'm not really the person to ask as far as detailed economics, but I don't think - to have an independent body that's genuinely politically independent I think might - you know, I think most people's view is that's probably the way to go, as the Reserve Bank is. You've got, you know, the Reserve Bank so it's not toyed with politically. How the changes are made and the details of it, that's something for you guys to look at.

30 **MS CHESTER:** Sean, I do appreciate your courage in coming over from the west to Brisbane to share your views.

35 **MR BUTLER:** It's a long way, for sure.

40 **MS CHESTER:** I guess the other thing that would be good to get your thinking on, a lot of the discussion we've had today - and largely it's a function of the Queensland government's views as well, that there's only so much you can do within HFE. There need to be broader federal financial reforms. Does the senator have a position on state taxing rights and funding responsibilities between the Commonwealth and state as part of broader federal financial reform?

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5 **MR BUTLER:** One of the issues that Catherine brought up - and this isn't really so much to do with the HFE as royalties - Australia has got huge reserves and countries like Qatar - I think we've got more gas than Qatar or we're going to have soon - and yet we make a very small proportion in royalties compared to what some foreign jurisdictions do, so I think there's some other bigger issues - and this isn't to do with HFE; this is to do with royalties - where Australia could probably do better.

10 As far as developing resources, you know, again I'm not from Queensland; I don't know all the ins and outs, but you know, there's resources in all states that could be developed to a greater extent and at the end of the day, schools, hospitals, roads, they all need money. So by growing the pie, we've got the money and we're able to grow services, so whatever's - I think there's a bit of a feeling in Western Australia, rightly
15 or wrongly, that maybe some states aren't doing as much as they could or they're being a bit conservative in their opening up of their resources for various reasons.

20 **MR COPPEL:** Excellent, well thank you very much and thank you for travelling over to Brisbane for today's hearing.

MR BUTLER: Thank you for listening.

25 **MS CHESTER:** Thank you.

MR COPPEL: Thank you. We're going to take a break now and we'll reconvene at 1.30 with the Townsville City Council. Thank you.

30 **ADJOURNED** [12.37 pm]

RESUMED [1.31 pm]

35 **MR COPPEL:** Welcome back, everybody. Reconvene the hearing starting with Matt Thomson from the Townsville City Council. So if you could give your name and affiliation for the purpose of the transcript.

40 **MR THOMSON:** Sure. Matt Thomson, the Chief Financial Officer at Townsville City Council.

MR COPPEL: And would you like to give an opening statement?

45 **MR THOMSON:** Sure, yes, absolutely. Pleasure to be here. I'm

presenting here on behalf of the Mayor of Townsville, Mayor Jenny Hill. Townsville provided a written response. I guess today I was just hoping to expand on a couple of those issues, particularly some of the key concerns we raised in that written submission. Just for the benefit of sort of painting a context of Townsville, Townsville is a large regional city. It's just under 5 200,000 people. It's actually the largest city north of the southeast corner of Queensland, certainly in the state and, in fact, across the country.

The local government area of Townsville is about 3700 kilometres squared, fairly diversified economy. So we have some prominent 10 industries, including defence, health, mining, agriculture and tertiary education. Recently Townsville has been in a pretty challenging economic position, certainly as a result of the mining industry downturn. We've seen some related industries close with some of the large industrial and 15 manufacturing industries close recently. However, on the flip side, we've seen a number of recently announced projects which, I think, give some confidence moving forward.

Townsville City Council supports the principles raised in the 20 Queensland Government's submission following the request from the Commission. To be clear, the proposed changes to the current HFE model, as suggested, Townsville believes will be detrimental to the residents and businesses of Townsville. Certainly any change in the HFE model in terms of funding restricts the ability of local governments like Townsville to play 25 the role that they play in the community.

The concern, I guess, that we have raised is in the context of a demonstrable gap and one that is widening, it seems, in the opportunity 30 between city and regional communities in Queensland. So our submission reflects, I guess, the dichotomy of an increased cost to serve local regional communities and the constraints that are faced in terms of capped out own source revenue for local government.

I'm happy to provide any comments around some of the specifics in 35 our submission, but perhaps I'll pause there and we can explore those through question time.

MR COPPEL: Thank you, Matt. You make the point, and a number of 40 others have made the point, particularly in the context of Queensland, that the cost of delivering services is greater, given remoteness and geographic spread of the population. The CGC does make adjustments for disability factors, for higher costs of providing services. Do you have any – I mean, in a sense they try to compensate for those higher costs. I mean, you can make arguments for why it may not be done right or not. But there's usually 45 legitimate arguments for why it's difficult to do that.

Do you have any more systematic or systemic concern that the system isn't making sufficient adjustments for the differences in costs of providing services across different jurisdictions or within jurisdictions?

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MR THOMSON: I think, Commissioner, I'll perhaps leave some of the mechanical formula, if you like, perhaps to others who are well versed in that. I think the fundamental concern that certainly the mayor of Townsville and city council wanted to table is that the increased cost of services are real in regional communities. And with outlined energy costs, we've outlined things such as environmental costs, the importance of Townsville particularly as a tertiary health centre for a very, very large region of Queensland, et cetera.

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We've outlined a number of things in our submission. To the extent that there's detrimental impact on potential state government funding in order to fund those essential services I think is our primary concern; certainly the mayor's primary concern. Based on the draft paper, we understand that the models being proposed do have a potential detrimental impact on funds to the state and, as a result or as an outcome to us, we're very concerned around some of the infrastructure and the ability to continue providing that local government support to Townsville.

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We talk a little bit about energy costs specifically. Energy costs have been on businesses and ratepayers and residents of Townsville for some time. We are 675-odd kilometres from the nearest base load generator and, of course, the losses along the transmission and distribution lines are very significant. The Queensland State Government provides a community service obligation to assist in terms of supplying electricity at a rate consistent across the state. Any impact on that, I think, will have a disastrous effect.

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In fact, we've seen a number of industries recently, large industries – I'm talking some of the very, very large manufacturing and industrial companies – raise energy costs as one of the primary determinants in their international competitiveness. And I'm talking organisations such as Sun Metals and Glencore. Both of them have very, very large industrial activity in Townsville. I'm aware Glencore wrote to the state and federal governments recently and in three years their energy price has increased a hundred per cent in three years. These are very heavy energy industries.

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So energy is one thing that we're particularly concerned of and the ability to continue funding community service obligations. We're very fortunate to have the Great Barrier Reef on our doorstep and its custodians, or certainly as Townsvillians feel, that they are, in part, custodians of that

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for the broader Australian population. We take the environmental regulation very seriously. But that does add significant cost to our doing business in Townsville. We're currently upgrading a sewerage treatment plant at Cleveland Bay, which is just on the southern outskirts of Townsville, but it is the treatment plant that treats majority of Townsville water.

That upgrade has significantly increased in cost because of the very, very high standard we hold ourselves to in terms of environmental regulation prior to pumping treated water out into the Coral Sea. So it's those costs that are absolutely real and certainly in the provision of services from council we feel that any potential reduction in HFE funding has a very significant impact on local businesses and local economies at a time when Townsville, I think, has had its fair share of challenge over the last five or six years.

MR COPPEL: It's often drawn out as an analogy the way in which certain Commonwealth and state funds are distributed to local governments. There's a slightly similar process as for the Commonwealth Grants Commission to the states and territories. But they don't have a sufficiently sized pool to provide an equal level of services. I'm wondering if you could share with us your views on how the state system or grants to local councils works. You made the point about providing similar level of services. Is that realistic to expect that to be possible, particularly in – I'm referring to Townsville that is very remote. But Queensland has some very remote areas.

MR THOMSON: Yes, sure. I won't comment perhaps on the mechanism by which the state government – that's a matter for the state government to distribute funds. What I will say in terms of the comparable level of service, I think that there's certainly a fundamental belief the mayor holds that basic level of services are absolutely required to be comparable. So I think that there's an expectation that – for example, we're a very large garrison city, defence is a very, very significant industry in Townsville.

Secondly, the Townsville Hospital serves one-eighth of Queensland in terms of its catchment area; very, very significant public infrastructure. So both federally and state, there are significant infrastructure that council provides to state and federal governments as part of our role. That infrastructure can be things like sort of trunk works in development but also be infrastructure such as sort of lifestyle and recreational infrastructure in Townsville.

Those types of activities we need to continue to encourage and support and retain talent in Townsville. Certainly the model that's been proposed

here, we feel, has a potential to restrict our ability to do that. We feel as certainly a very significant regional city north of the southeast corner that there is an obligation for us to be able to – council I refer to – to provide services. That service must be at a reasonable level. So I think in answer to your question, the mayor is committed to providing within the remit of council, within that remit, providing a measurably consistent level of services to our residents and constituents.

MR COPPEL: When you talk about essential services you're talking about essential services provided by the local council?

MR THOMSON: Yes, absolutely. So council provides a number of sort of social-type services, you know, parks and gardens and other things that typically council provides. In addition to that, we support the state and federal government with some of the delivery of services in the north because of the remoteness of Townsville. An example is the current pipeline which is securing long-term water supply. Council and state government are working together on that to ensure we deliver those services. So it is within the remit of a local council, albeit we do certainly support in terms of the delivery of broader services as the sort of regional local government.

MR COPPEL: Can I ask you about the notion of fairness? I'm sure you were here earlier today. But it's been brought up in submissions and our consultations during this inquiry that the HFE system has lost a bit of confidence in the community because it's seen as not being fair. If you probe a little bit more it seems to be linked to a notion that there's not a sufficient element in the HFE system to give reward for effort. I guess, loosely speaking, putting it in the context of Townsville, if Townsville were to develop a major – make a major development or support a major development, the extra revenue that may come from that would be partly redistributed. That's seen as not acting as a sufficient incentive to undertake that initial development. Do you have any views on this notion of reward for effort as something that constitutes one part of fairness, fairness in the HFE system?

MR THOMSON: One of the things certainly the city council has been very committed to recently is trying to activate the city. So if I take a broad sort of answer to the question around fairness is the council, and certainly the mayor and the councillors, are committed to supporting economic activation within the remit of what council can do. The current system, as I understand it, it does have its redistribution impact. It is a secondary impact to counsel. But certainly the commitment of council in Townsville is to stand up and to, within the constraints of where we operate within the local government, act to provide an economic platform for businesses to

thrive.

5 So we certainly recognise the potential – it seems like an adverse
incentive mechanism. But it's not a primary concern. The primary concern
is activating the city and supporting businesses and reducing red tape to be
able to support business. Business has been pretty tough in Townsville. In
fact, business has been pretty tough in many places across the state, but
certainly in Townsville we've had some fairly prominent and very public
closures of major industrial facilities. So jobs in the city are key priority of
10 council. I guess we, through the decisions made by council and through the
mayor, that's our first and foremost priority. The second priority, of course,
is considerations around any sort of redistribution following that.

15 **MS CHESTER:** Just, Matt, having a better understanding of it from a
budget management perspective from Townsville City Council, so one of
the priorities that we have post-draft report, apart from letting people keep
the ties on our draft report and us better understanding their submissions to
us, is also looking at, if we were to contemplate recommending a change to
government, what would be a sensible or a reasonable transition path such
20 that particularly smaller states not be materially disadvantaged.

Looking at it then from a local council perspective and a budget
management perspective, so you've got your own source revenues and then
grant revenues from the state governments. What's the breakup between
25 own source and grants for your budget at the moment?

30 **MR THOMSON:** Yes, so own source revenue is the majority of that.
Grants go up and down, as you'd appreciate, on a sort of annual basis.
Certainly over the past little while we've been receiving some funds for the
delivery of major infrastructure. I mentioned the pipeline, for example. So
certainly commitments around that. But grant funding goes up and down.
What I did do – what I certainly can share is over the last 10 years the
allocation of grant funding has been reducing over time. So we are more
reliant now on forcing own source revenue in local government, certainly
35 in Townsville in any case. So the grants overall have been reducing.

40 **MS CHESTER:** And that's important for us to get a bit of an
understanding from a budget management perspective in terms of what sort
of year-to-year variability or variance do you already have with your own
source revenue and grants? Do you know what that is sort of over the last
- - -

45 **MR THOMSON:** Sure. Own source revenue is not particularly variable.
I mean, the primary levers for own source revenue and council are twofold.
One is rates, so property rates, and secondly, utility charges. Townsville,

perhaps unlike some of the councils in the southeast corner of the state, we still maintain and own and operate our water and waste water businesses. So there's a sort of business unit within council that deals with water and waste. So that's the utility charges side of our income statement. Then, of course, the rates revenue. So that's relatively stable. That's relatively stable. I mean, obviously things that impact that are fluctuations in population, fluctuations in tariff charges, et cetera. But, by and large, that's fairly stable and quite forecastable year to year.

10 The grant funding typically tied to major projects. We see a fair way out because of major projects lead time in terms of that. So certainly some of those major projects are well planned in advance so we can budget some of that type of initiative as well. But from year to year, that's a little bit trickier than own source revenue.

15 **MS CHESTER:** But the financial assistance grants that you're getting from the state government year to year for your fiscal capacity as part of their version, state level of HFE, what's the variance or the variability? I'm just trying to work out what sort of variance are you able to manage in a budget sense.

20 **MR THOMSON:** The financial assistance grants vary, absolutely they vary. The transparency of those – we won't typically know the final number of those until toward the end of the year. There's still – in terms of an ability to budget, we make some assumptions in there based on last year's, et cetera. So they're not a fundamental driver on our ability to budget. Certainly the ability to budget is mainly own source revenue, plus the major projects, so the massive capital investments that we need in things like we've been doing a lot with upgrading the CBD and the utility program within the CBD. That's an expensive capital program and certainly there's funding for those types of things that we source from state government. So the financial assistance grants in and of themselves don't, I guess, create budget uncertainty. But certainly the major project revenue is a little bit lumpy from time to time.

35 **MS CHESTER:** So then if you put it – then trickle it back up to the state level where what we're – well, one of the options that we raised or flagged on our draft report of equalising to less than the higher state, there's some numbers that people point to which were assuming very bravely – indeed, we said we'd never recommend this to government. But you did a cold turkey one-year implementation. I think they're the sort of numbers that you've heard about.

40 Even there, that would only represent 2 to 3 per cent of state revenues. So if you were to sort of then think of that within normal budget

management of a state government where they've got variability of their own source revenue of anywhere between sort of 7 and 8 per cent year to year, I'm just trying to work out how that then trickles through to Townsville and sort of the Armageddon picture that we're hearing here today.

MR THOMSON: So certainly I'm not sure that we're painting an Armageddon picture. What we're certainly raising concern of is over time the ability of councils to continue to provide a level of service and a comparable level of service for those typical sort of community-based infrastructure. So in our submission I'm hoping we're not being interpreted as suggesting Armageddon. But certainly there is some genuine concern around our ability to continue providing those services to the constituents.

In terms of the transition part specifically, I haven't given that significant thought. But certainly in terms of the ability of councils to continue to generate rate revenue is actually constrained. At some point you cut out the rate base and you simply can't afford to continue to keep levying rates and charges on the residents. I'm not sure where that number is, but I don't think we're too far from that number in terms of the Townsville demographic.

So certainly as I look forward in a budgetary sense I say there's limited ability to be able to drive own source revenue from that. Certainly the mayor has been quite committed to not more than a sort of a CPI based adjustment, so the real costs are capped out.

MS CHESTER: So then that maybe sort of leads us then to, I guess, the broader scheme of things, and indeed, we intimated in our – well, we don't intimate it, we actually state it in our draft report. There's only so much you can do with HFE. There's a role for broader federal financial reforms, which opens up issues like vertical fiscal imbalance, the state taxing powers and funding responsibilities. Does Townsville view changes to HFE more so in the context of broader federal financial relations or is that something that the council has a view on reform that might be needed that would then trickle through to council's own revenues?

MR THOMSON: Yes, I'm not sure that we've got a view on the sort of federal/state relationships. One of the things we are doing in that response in terms of creating agility within our community, I think, is the way we can sort of deal with those types of issues certainly is around these economic activation pieces. So doing what we can within the Local Government Act to reduce the constraints for people to foster and grow economic-generating activity in Townsville. So that's what we're primarily focused on, something that's right at the coalface to say, "Well, how do we actually

generate a better environment for local businesses to go and actually engage labour to reduce the burden of red tape, to create the infrastructure within the community that supports that?”

5 We’ve had some great examples of things recently where, for example, Central Queensland University has just recently opened a campus in Townsville. It’s those types of things that we can sort of encourage at council in order to be able to make that transition in terms of funding. Certainly the mayor is very keen to drive innovation in terms of within the
10 parameters of which we operate, drive innovation in terms of revenue as well.

 So rather than sitting and just assuming the rate basis caps out is what can we do as council locally to encourage sort of economic activation?
15 Because ultimately, if we activate the city, the city becomes more desirable to live and people move into the city, development occurs. Of course, that has a sort of indirect benefit to council and revenue. So that’s the role we see us play primarily and that’s what we’d be really focused on delivering.

20 Anything that challenges us even further in terms of revenue I think is sort of eroding some of that ability of Townsville to create the place that we’re certainly committed to creating.

MR COPPEL: I think we’re done, we’ve covered the questions we had
25 for you; so thank you again for coming down and participating in today’s public hearing.

MR THOMSON: Thank you very much. Thanks for your time.

30 **MR COPPEL:** The next participant is the Local Government Association of Queensland; Greg Hallam and Roland. Make yourself comfortable.

MR HALLAM: Thank you.

35 **MR COPPEL:** Give your name and affiliation for the transcript and then a brief opening statement.

40 **MR HALLAM:** My name is Greg Hallam, I’m the Chief Executive Officer of the Local Government Association of Queensland. I have some considerable experience in the government or financial relations. I am an economist. I did my Honours thesis in the early 80s on comparative federal financial relations around the world but focusing on countries that had similar political systems. So America, Canada, India, Pakistan.

I was part of the Self Inquiry in the 80s into local government, finance and the grants commission system, then transferred across to the National Office of Local Government where I helped draft the FAGS Act. I have been the CEO of the (indistinct) shire and my immediate (indistinct) before I came to the LGAQ was CEO of Townsville City Council. We are concerned that the current methodology that a move away from the current methodology would really end up in a less egalitarian, less fair system, particularly for rural and remote indigenous communities in Queensland.

I know Queenslanders are known for telling the sad story about how different we are, but that is the truth; the most decentralised state. Certainly Western Australia is a very large state. When you look at the population distribution, it's not just in the provincial cities but across the state it's extraordinary. It's equally a problem for councils – for the state as it is councils. Because I regularly visit places like the Torres Strait Cape, the Gulf, they're two days to get there; I mean, literally.

Every time the state has to deal with health, policing and medical issues, courts, whatever, the cost of flying people in and out is horrendous. So we represent all 77 councils in Queensland, including the 17 indigenous councils. They're all our members. I personally spend a very large amount of time, on average 60 or 70 nights, away a year in those communities, so I have a very clear sense of their issues.

Our written submission I won't speak to in great length. But effectively, we did talk about baseline shares of revenue. The thing that startles, I think everyone, is with 3 per cent of the revenue or 4 per cent if you adjust it for shares, we've got 25 per cent of the asset responsibility. So the cost of every small community having to have the most fundamental services – water, sewerage, a hall, parks, sporting facilities – is enormously costly. I think, to that end, the current federal grants commission methodology on the expenditure side does over decades over work properly reflect that circumstance, that there are – not so much on the revenue side but on the expenditure side there are these very considerable costs.

Some things are less obvious than others. Water and sewerage is a lot more expensive to run in Brisbane because of the topography of the setting. It's a hell of a lot cheaper to do it in Melbourne. It's \$10,000 a block cheaper to run water and sewerage because of their flat terrain. So I believe that the current methodology works well. Bearing in mind that if we have significant changes in the allocation, it inevitably flows onto local government. And I'll evidence the last financial crisis in Queensland, I guess, if that was the word.

5 We had substantial cuts on the order of \$400 million a year. That meant we simply stopped providing – we stopped doing a lot of infrastructure work, which affected local economies and still is an issue. I mean, we dropped our capital spend from 3 billion a year to 1 billion a year on the back of cuts to what was then the water and waste water subsidies. We dropped our workforces by 5000 people. So towards the end of what was the Bligh Government when they had their financial problems and then the adjustments made by the Newman Government, as I said, we stopped spending capital essentially. We did the very basic, put 5000 people off and
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MR COPPEL: How big were the cuts from the state government to the local government?

15 **MR HALLAM:** In the order of \$400 million a year.

MR COPPEL: And relative to revenue as a percentage?

20 **MR HALLAM:** My colleague might be able to help me, but it would certainly – prior to – put it in another term. Prior to that time, the federal government – the state government would fund 70 per cent of local government’s activities and the federal government would fund 30. It’s reversed. The state government has started to as the state budgets improved and things have got better and their revenues has increased – it’s probably
25 more like 60:40 still, but allocated at the federal government’s way.

The difficulty was – and my colleague sort of talked about it before, the CFO from Townsville – if you look at us as a sphere of government we’re less (indistinct) than the states. But that’s as a sphere of government, the numbers lie because that’s probably the top dozen of 15 council. If you talk about the councils that I’m concerned about, talk about less fair, they raise anywhere between zero and 10 per cent own source revenue.
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35 So those cuts are of enormous consequence. For instance, main roads department used to fund a lot of work through the councils on the main roads own network. That was in the order of 30 or 40 million dollars out in what I would call the outback sort of from southwest Queensland to the northwest. Hundreds of jobs disappeared. That left those communities quite incapable in some ways of dealing with disasters when they turned up.
40 We had to bring in crews from elsewhere to deal with roads.

45 So I guess if I can answer it in these terms: it’s far more challenging for a small remote council with no other sources of revenue who have anything between zero, if you’re indigenous, and up to 10 per cent for probably another 20 non-indigenous councils to deal with those sorts of

cuts; and those cuts were across the board, as I said. It was water and sewerage programs, it was roads programs, it was basic infrastructure work. These weren't nice to have; these were fundamental programs.

5 **MR COPPEL:** Thank you. If I begin, given your expertise and your current position and also your thesis on the way in which state and Commonwealth governments attempt to do a similar thing to HFE among local governments. You mentioned that many local governments only have zero or 10 per cent own source revenue. So the way in which state grant
10 commissions functions is very different from the Commonwealth. They tend to provide a much lower level of fiscal equalisation. The level of service, the type of services that are provided is also quite different.

15 But given that diversity and the specific features that make for such large variations in the cost of providing these services, do you think it is realistic to aim for an equal capacity among – equal capacity to provide those services among local governments? And does that extend, in your view, to the broader sphere?

20 **MR HALLAM:** I think it's very difficult to achieve. I mean, since 1987 when the FAGS Act was borne out of the pits (indistinct) the whole idea was we had a share of revenues, a share of growth. The fundamental difficulty in local government we have to fund growth and we don't have access to a growth tax. If you look at local government rates over 20 years
25 they increase just at or above CPI. There is some natural growth in terms of new blocks being knocked out. That in a boom is 2 per cent and ordinarily it's less than 1 per cent.

30 As I said, the nature of the FAGS Act, the Commonwealth legislation as it applies and is operated through the state grants commissions, has really focused on HFE and not BFI. We do have a flaw in our Act, which is the 40 per cent – sorry - - -

35 **MS CHESTER:** Thirty.

MR HALLAM: Thirty per cent, sorry. So I guess I come back – my learning is almost 40 years ago as a student. But in relative terms, even compared to a country like Canada, we are far less disparative(sic) than say Saskatchewan to the Maritimes. That's a great thing. I mean, I think if you
40 look at why we're a civil society, why we haven't had all the ructions that other places have had, that is because there's a reasonable level of equity in how distributions occur. I think it's fundamentally important that people on Horn Island or in Kowanyama or in Birdsville can aspire to some reasonable level of – without having a great civic theatre or massive sporting facility, they do need to have a level of – there's got to be some
45

sort of fundamental CSO about the standards people can expect. As I say, Queensland through its history has many more of those communities.

5 **MR COPPEL:** Remaining with state to local – or Commonwealth/state to local government system of HFE, are there any lessons, in your view, from that system that would be relevant for the Commonwealth/state HFE system?

10 **MR HALLAM:** I have seen in my lifetime – include my time in Canberra – three ministers (indistinct) about changing the system. They all died with the politics. It's very difficult to do.

15 **MR COPPEL:** Vis-à-vis local government or vis-à-vis Commonwealth/state?

20 **MR HALLAM:** Both. So I can remember various treasurers, I can remember Wendy Fatin, Minister Fatin. I can remember Minister Tacki(?) and Minister McDonald all having a look at – so there's both sides of politics there. When it comes to changing the methodology, there are so many – because of the complexity of it, there are so many unintended consequences. If you had what we would call an equal distribution model, which is the – this is a model that is used in some places – there are no losers, if that's makes sense.

25 I mean, you never go backward. You can only go forward. But it limits what a winner might get. But one of our models do take money away from people; and that's quite difficult. I've been in that situation when I was at Townsville city when – goodness, it would have been '90, '91, it was Minister Tacki, from memory – Minister Fatin, sorry. We lost a million dollars. That was really tough.

30 **MR COPPEL:** When you refer to equal distribution, is that equal per capita? That's the equal distribution model?

35 **MR HALLAM:** Yes, it is, in essence. So it basically – it's not ignorant but it doesn't have huge regard to the revenue side; it looks more at the expenditure side of the equation. As I said, that hasn't been practised for some time. But that was a model that Self looked at, other countries had used it. I think it was – so it was essentially looking at that sort of approach, equal distribution, and the modifying by the sorts of matters I talked about before; your disability factors on the spend side. I'm not recommending that, by the way; I'm just simply saying that was the alternative model.

40 **MR COPPEL:** You did mention in your response the sheer complexity of the system, which is one of the factors that may be undermining sort of

public confidence in the HFE system. Do you have any more specific views on complexity, how it could be – is it so complex that it doesn't matter if it is?

5 **MR HALLAM:** We used to always joke we could sort of stand in a phone box and still fit in all the people in the country that could understand what we did. I think it is over-elaborated at times. I mean, as a matter of history in '87, Commonwealth took over the distribution of Queensland grants. They had a provision in the Act. The Queensland Government wouldn't
10 agree to the federal government paying indigenous communities. So I and an external colleague developed a model from scratch in six weeks, which was no mean feat.

15 What we did though is we collapsed what were probably 40 indices into 15. Then we did all the sensitivity testing and it didn't make much difference at all. Some are really important like your population distribution, like your – like the physical distribution of population, the number of indigenous persons, people under 5, people over 65; those things are really fundamental and important. Some of the rest of it is a bit
20 overcooked, I suspect. It doesn't make a lot of difference.

MR COPPEL: One of the specific areas which has been often questioned as very difficult to make an assessment relates to sort of indigeneity, providing services for indigenous people, which is closely linked to
25 remoteness. Some have suggested that it may be easier just to take that out of the HFE calculations, assessments for indigeneity, and deal with it by a separate Commonwealth grants. I'm interested in whether you have any views or thoughts on that idea.

30 **MR HALLAM:** I think that's fraught with difficulty in the sense of where do you stop? You take the under 5s out. I mean, we're a little different here in Queensland because whilst we have lot of indigenous people living in non-indigenous councils, we have 17 discrete communities. So if you went 2 and a half thousand northwest of here you'd end up in Cherbourg.
35 Then between Rocky and Emerald you've got Woorabinda and then the other 15 communities are all in the Gulf Cape and the Torres Strait.

They function as fully-fledged local governments. They do everything other councils do. I acknowledge my colleague in the back. So our model
40 is somewhat different. I mean, they do get their services – and in those instances it's really quite a decent model. All the services are delivered through the council. So if you went to collect any sort of welfare payment or had to interact with an agency of the Commonwealth, you'd be doing it through the council; they act as the agent. So as I said, I can't speak for the
45 other jurisdictions and I acknowledge there are many indigenous people that

5 don't live in Aboriginal and (inaudible) community. I think it's over 30,000 that do live in an indigenous community in – a functioning indigenous council in Queensland. I think as a matter of record we have the highest level of indigenous population of 4 per cent, including the Torres Strait Island people.

MR COPPEL: I think we're done. Thank you very much.

10 **MR HALLAM:** Pleasure.

MR COPPEL: We may even be running a little bit ahead of schedule. Well, we are. The next participant is the Queensland Government. What we normally do at the end of the day's proceedings is ask if anyone who hasn't registered who's in the room that would like to make some very brief
15 comments or remarks, we give that opportunity. So if there anyone, since we've got about 15 minutes, that - - -

MS CHESTER: Not that we're allocating 15 minutes for - - -

20 **MR COPPEL:** No, we're not. Yes? Again, like others, you have to give your name for the transcript.

MR TUNNY: Thanks, Jonathan. Thanks, Karen. My name is Gene Tunny. I'm from Adept Economics, I'm the director of Adept Economics,
25 which is an economic consultancy firm. As background, I'm formally of the Commonwealth Treasury and I've worked for the state government here in Queensland, so have some knowledge of the system and I have a concern for not just the state of Queensland but concern for the nation as a whole and also for the long term.

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Now, where I think we need to go with this is to analyse what this means over the longer term. I think you've been probing the people who spoke here today about well, have you thought about the longer-term
35 issues? I think what we've heard is that there are a lot of people concerned about what this means immediately for Queensland, what those cuts mean for the ability to deliver services, what it means for state taxation. And I can understand where those concerns are coming from.

40 Perhaps what needs to be done is more modelling, simulations of different paths of budgets over time, because I think – was it, Karen, you mentioned – or it might have been you, Jonathan, you talked about how – well, okay, Queensland is a recipient state, so we've got a high relativity at the moment. We have had a low relativity, we've been below line at times. But, on average, we've been around I think it's 1.02 or 1.03. So on average,
45 we've been the net beneficiary. But that may not be the case all the time.

5 So what may help some of the people who presented today, it may help
me even change some minds – you never know – is if you have an analysis
of how that could change over time, what’s that variability? What happens
if we have another resources boom? Or what happens if gradually some of
those disability factors in Queensland diminish? So it needs some more
modelling, some more simulations of different possible futures would be
useful so that people understand what that longer-term perspective is and
so we’re not just so narrowly focused on that short-term impact, which is
10 definitely of concern to people; I understand that.

That’s essentially what I’d like to say. I think, in my view, it would
help, your report would be improved by more modelling, more simulations
of different alternative paths.

15

MR COPPEL: And that’s exactly what we’re doing.

MR TUNNY: Okay.

20 **MR COPPEL:** For the draft report we’re seeking feedback on some of the
options that were put forward. We’re looking at those both from the
perspective of what those options mean in terms of their relative merits,
obviously, but also putting it into the perspective of looking forward. That’s
a lot trickier than looking backwards because you have greater elements of
25 uncertainty over the size of the GST pool and how it’s distributed. But it
can make quite a substantial difference to the orders of magnitude that are
involved in the distribution across jurisdictions. As you say, that may give
a different light on some of the options and their relative merits. So there’s
like eight pieces of work and part of the reason why the length of term of
30 this inquiry has been extended a little bit.

MR TUNNY: Okay, good then. Because particularly in Queensland
there’s concern about that longer-term impact because you probably heard
we’re on that trajectory to \$81 billion in total state debt. So there’s a lot of
35 concern about that and well, if you do lose revenue, then, well, where do
you end up? Because there will be a lot of resistance to cutting expenditures
and also there’ll be resistance to raising taxes. I think if you do the
modelling where you have that long-term framework, you look at what
happens to that, the trajectory of debt and your net debt or net financial
40 worth, that would be useful.

MR COPPEL: Queensland is one of those unique states which has
actually moved from donor to recipient about four times over the last few
decades.

45

MR TUNNY: Exactly.

MR COPPEL: It's quite unusual in that regard and it's partly linked to natural disasters and the impact that that has on recovery expenses.

5

MS CHESTER: And one of the state governments that's also raised the other longer-term issue which is broader federal financial relations and taxing and funding responsibilities, which makes that longer-term trajectories that you're talking about look very different.

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MR TUNNY: Yes, I understand. I mean, I'm a great believer in looking at this holistically, but I understand you have a particular terms of reference. Whenever we try to have that bigger conversation it ends up going – doesn't go anywhere. I mean, we had that White Paper which I thought was a fantastic idea, but I think that's been stopped and that's been stalled. Let's get this right. I think – anyway, I wish you luck and thanks for the opportunity to speak here today.

15

MR COPPEL: Thank you.

20

MS CHESTER: Thank you.

MR COPPEL: Is there anyone else who'd like to make some brief comments now before the next participant, before the State Treasurer? If not, we'll break for a few minutes, stretch your legs, have another cup of coffee, and we'll start again at 2.30, hopefully.

25

ADJOURNED

[2.17 pm]

30

RESUMED

[2.21 pm]

MR COPPEL: Okay, well we will start and I'd like to begin by welcoming Jackie Trad, the State Treasurer for Queensland and your colleagues from the Queensland Treasury. If for the purposes of the transcript you could give you name and affiliation, that would help us then with the transcript and then some brief opening remarks. Thank you.

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MS TRAD: Thank you very much, so Jackie Trad, Deputy Premier of Queensland, Treasurer of Queensland and the Minister for Aboriginal and Torres Strait Islander Partnerships. This of course is Jim Murphy, the Queensland Under Treasurer and I'm joined by our members of staff from my own personal office as well as from the Treasury.

45

Can I first thank you, Commissioner and Deputy Commissioner, for coming up to Queensland at our invitation to hold a public hearing and I also want to thank you for the opportunity to present on behalf of the Queensland government here today as well. Before I launch into my opening remarks, can I acknowledge the traditional owners of the land on which we meet, the Yuggera and the Turrbal people, and can I pay my respects to elders past, present and emerging.

Can I start - and quite directly and bluntly - by saying that the draft changes being proposed by the Productivity Commission are really unacceptable to Queensland? All Australians should be treated fairly and have access to quality essential services no matter where they live. However if the proposed changes are enacted they will entrench inequality of service delivery, giving some states and territories the ability to deliver better services to their residents than others.

Queensland is unique amongst Australian states and territories. We are a vast and a very decentralised state, significantly more so than any other state. We are the only state where more than 50 per cent of the population lives outside the capital city. While this creates significant service delivery challenges, we are also lucky to be endowed with an abundance of natural resources. This combination of both having high costs but also the potential for high revenues is why we are one of the only two states that have been both a recipient and donor state of GST revenue distributions over time. Our unique situation is reflected in our average relativity of 1.028 since 2000.

From this position, we would like to express our strong support for the principle of horizontal fiscal equalisation. We are a state that values fairness and equality. We believe all states should have the capacity to provide similar levels of service. State governments can decide exactly what services are provided and we are held to account by our voters for the decisions that we make, but HFE means that all states have the capacity to provide similar levels of service. At its core, this means that all Australians, regardless of which state they live in, should be able to receive similar levels of service. It avoids the situation of people in one state being clearly worse off, through no fault of their own or their government.

HFE reflects an understanding that while there are many factors beyond the influence of an individual state's control, the effect of these factors can be shared across the nation. This is the ideal which our federation was founded on. Queensland, like Western Australia, benefitted from the mining boom. We recognise that. For a number of years we did not receive an equal per capita share of GST because we generated enough revenue to

meet our own spending needs and we shared our fortunes with other states who are less fortunate.

5 When the mining boom came to an end we were exposed to the same budget challenges that came with the averaging mechanism to the current system. However through sound fiscal planning and discipline management we are able to keep our deficits in check and continue to provide quality services to Queenslanders. More recently, from factors beyond the government's control, private investment in mining, which
10 helped with the growth of our state for much of the last two decades, has declined. This has adversely impacted not only on the growth of our royalty revenue but also our other taxation revenue. At the same time, we continue to face significant service delivery challenges experienced by a vast and decentralised state with a large indigenous population.

15 Higher costs in regional and remote communities can be found in almost all services delivered by Queensland. In health, the cost of providing public hospital services to acute patients is around 40 per cent higher in very remote parts of Queensland than it is in Brisbane. The cost of constructing
20 health facilities such as hospitals in rural and remote areas such as Cape York and in the Torres Strait can be almost double the cost of building similar infrastructure in metropolitan areas.

 In education the Queensland government spends around 40 per cent
25 more on a public school in remote areas and 75 per cent more in very remote areas compared to a student in Brisbane. In public safety it is estimated that the cost of a police officer in remote and rural areas of Queensland is around 15 per cent higher than in urban areas such as Brisbane. In Queensland there are nearly 100 police stations that are more than 1,000 kilometres
30 away from the capital city. This is approximately 30 per cent of the number of Queensland police stations. The cost of building a police station in these areas is also over double the cost of building in Brisbane.

 In addition to these challenges Queensland, due to our geographical
35 location and the location of our population centres, is prone to destructive natural disasters. Rightfully, the current HFE system recognises the significant cost of natural disaster recovery and provides additional GST funding to compensate for these costs. While payments under the natural
40 disaster relief and recovery arrangements are essential, they do not compensate for the full cost Queensland incurs in rebuilding and it is appropriate that the net expenses we incur are recognised in the current HFE system.

 This system ensures that despite these challenges we can continue to
45 deliver the services our communities expect. However, if a fundamental

change to the principle of HFE were to occur which results in one or more of these challenges no longer being recognised in the GST distribution process, it will result in a significant deterioration to the Queensland budget and have a damaging impact on our people and our communities.

5

To put this in context, if the Productivity Commission's option of equalising to the average state were to be adopted, the resulting reduction of \$1.588 billion a year in GST revenue to Queensland is equivalent to about 5,000 teachers, 5,000 nurses, 3,000 police officers and 1,135 fire fighters. Such losses mean the Queensland government will no longer be able to deliver services to many parts of our community or at least not be able to deliver services of the same standard as other states.

10

The Productivity Commission should proceed with caution before recommending major changes to the current HFE system. It is a significant part of state budgets and the ramifications of change are enormous. Before any change is contemplated we must fully understand the benefits and costs of not just the options open to us but also of what we choose to leave behind.

15

Queensland recognises the current HFE system is complex and some parts can be difficult to comprehend. As a result, it's often criticised for being an opaque process. We have in our submission asked the PC to explore options which could simplify the current system to increase its transparency and accessibility without fundamentally changing the outcome it delivers. We also believe the Commonwealth Grants Commission should play a more active role in publicly explaining HFE, including the processes and decisions.

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However, the options of equalising to the average state or the second strongest state which the PC has put forward do little to help improve the current system in that regard. On the contrary, these options add to the complexity of the current system while delivering an inequitable outcome that jeopardises the cohesiveness of our federation. If there is a need to introduce a new system, Queensland believes it should come as a part of real and meaningful reform to broader federal-state relations. This would include options to properly address vertical fiscal imbalances in Australia. The states and the Commonwealth should rethink how payments can be made so the states can have the certainty, the security, the flexibility and funding to consistently deliver on their responsibilities.

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In conclusion, Queensland continues to support the principle of horizontal fiscal equalisation. Like many other states, we value the principle of equality. While we recognise the current system can be improved, we believe introducing a fundamental change to combat the potentially temporary situation faced by one state is not prudent, especially

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when it comes at the cost of long-term certainty and stability for most of the other states.

5 If the Productivity Commission finds the current system is in a state of disrepair - and we do not agree that the evidence suggests that it is - it should argue for real and meaningful reform for federal-state relations in Australia and recommend a system that can endure the test of time and deliver long-term benefits for all Australians. Thank you very much. I'd now like to ask the Under Treasurer to make a couple of comments as well, if that's
10 okay.

MR MURPHY: I'll just give a few quick points because I know you wish to have time to give question and answers. There are two things we agree on with the Productivity Commission and that is there's a need for more
15 fundamental reform of Commonwealth-state fiscal relations and that is fundamental; it is an overarching problem that we have at the present time. We also agree that the HFE system is complex and could be reformed through adjustments to the methodology and assessment conducted by the Commonwealth Grants Commission.
20

We do not agree that the equalisation process should be changed on the grounds of, firstly, that incentives distort policy decisions and stop policy reform - we do not agree with that - or on the grounds of an outlier impact showing, to us, the impact through the equalisation process shows that
25 where increased revenue raising capacity occurs it's reflected in impacts on relativity and so the actual process of HFE is working in relation to Western Australia's increased revenue capacity.

So in summary, Queensland Treasury does not think that there is a case
30 being made for substantial reform of the equalisation principle for removing to relativities based on the average state or the second strongest revenue state, but overall we think this has been a very useful exercise. To some extent, we think there should be reform, but maybe a freer hand should be given to the Commonwealth Grants Commission to simplify their processes
35 and explain it better, but retain the equalisation principle a part of the federalist construct.

So that's where we - I might say we've put a lot of work into looking
40 at this and as it's easy to categorise Queensland as always a recipient state, but as the Deputy Premier pointed out, there have been occasions where over a five year period we were a donor state because of the mining boom and so overall when we look at the whole process working, it seems that it delivers for Australia in particular a fair and equitable share of fiscal capacity to states.
45

MR COPPEL: Okay. Thank you, Treasurer. Thank you, Jim. I think I'd like to begin by talking about the objective of HFE, because both in your initial submission and in your submission on the draft report you're the only jurisdiction that's made the point that there is a difference between providing the same level of services and a similar level of services. The CGC would accept that; they recognise that there are all sorts of reasons why the aspiration of providing the same level of services cannot be fully embodied in their calculations so in a sense you're sort of mirroring that.

But I'd like to also recall that years past the objective of HFE was to provide a similar level of services and that it has gradually elevated to an objective which is to provide the same level of services and that elevation has been led by the Commonwealth Grants Commission itself; it's not through government or an inter-governmental process. And that was part of the reason behind the draft recommendation that the objective of HFE should be defined by the government and it's given that background and given what you've said about providing a singular level of services I'd like to get your sense of what you actually see as the objective or the definition of HFE or even the principle of HFE, how it should be defined, so that the CGC then can go about its assessments with that definition in mind.

MS TRAD: Thank you very much, Commissioner. Can I start by saying that, as I said in my opening statement, we do value equality and fairness in Queensland, as I'm sure that most Australians do. Equalising to a level of service that is equitable amongst Australians is important and I think that in terms of the same and similar question which you had in your question to us - I'll get Jim, the Under Treasurer, to address the actual detail - but I mean, we recognised in our submission that the calculation of similar is incredibly complex. This went to the issue of how do we make this less complex so that jurisdictions and Australians could understand how the GST was distributed?

Fundamentally though, that is a process question and that is a question around technicality and detail. The principal question around ensuring that there is funding for an equitable level of service delivery for all Australians is the principle that I believe we should fundamentally adhere to. But Jim, if you want to address - - -

MR MURPHY: Yes. Well, I think yes, we said a similar fiscal capacity. What we're really driving at was to address the fundamental issue which we think arises with HFE and that is the complexity of the methodology and the Grants Commission's work, so the reason we were saying you could move from same to similar was to give greater flexibility and to move away from what we feel is false precision, which is being looked for by the Commonwealth Grants Commission.

5 We think they've been pushed down a path where they've tried to suit various representations from states and actually if they simplify their methodology - and that was the idea of having a similar approach, not the same, because to us - I know I sound - it might be semantics, but the same means you've got to really be very precise with what you're doing, where similar means you can be roughly approximately similar fiscal capacity. But we don't agree that you should move to a reasonable level, which I think was what was in part of your draft report. So we would say the equalisation principle should stay as it is, but you could give more flexibility to the Grants Commission to review their practices and reform their methodology.

15 **MS CHESTER:** So Jim, you'd, sorry, keep the equalisation benchmark the same that they have at the moment; equalised to the highest state with an EPC overlay but allow more wriggle room for them to get rid of some of the complexity?

20 **MR MURPHY:** Yes. That's exactly - - -

MS CHESTER: So realising that that would never be full and equal?

MR MURPHY: Would never be what?

25 **MS CHESTER:** Full and comprehensive equalisation.

30 **MR MURPHY:** Well, I think it's going to go close to it. I think there's as I say, a false precision in what - there's going to be judgments embedded in any of these decisions made by the Grants Commission. But it's all right. You know, you can say well you're giving wriggle room, but at the same time until we had the outlier of Western Australia with the mining boom, which is another issue, the states quite happily accepted what was proposed by the Grants Commission. So the system does work, notwithstanding all the complexity and the black box of the Grants Commission.

35 What we're saying is if you want to improve the communication and the opaqueness, if you moved out from possibly same to similar - or it should not - which would be looked at, would that make the Grants Commission feel more comfortable in their methodology being simplified? That's the point of it; it was not seeking to say that you have a fundamental reform of HFE.

40 **MR COPPEL:** In a similar vein in your submission you were arguing that in that context there needs to be scope for give and take. If each jurisdiction looks at where they are today and where they would be tomorrow under a

different regime, if there's a reaction to it being negative, therefore against any change; being positive, therefore being in favour of any change. The nature of how the system works is you will never get a consensus and you in your submission say that there needs to be some sort of give and take. I don't know how big that is.

But you don't explain then what sort of mechanism would sit around a way of moving to a simpler formulation for GST distribution that provides a basis for different jurisdictions to share their views and give their perspectives on different approaches. Who would lead that? Would it be the CGC, you seem to be implying, or would it be a process that involves state and Commonwealth government, in your view?

MS TRAD: Look, can I just take a step back from that please, Commissioner, because I think fundamentally we are missing the key issue here and the key issue is Commonwealth-state financial reform. What we're doing here today is sort of looking at the peripheral issues surrounding one component of what is a large and complex relationship between multiple jurisdictions and responsible for a whole range of arrangements, so the GST is one component of that. Tied grants are another.

So there are a lot of issues of complexity that make up the Commonwealth-state financial relationship that I think need to be on the table in terms of what I articulated and what the Under Treasurer articulated in terms of important, significant, enduring reform, because that's what we fundamentally need to talk about, not you know, the minutiae of the methodology used by the Commonwealth Grants Commission in distributing the GST. As important as that is, because as I've outlined in my submission, you know, a change to the relativity to the second strongest state or the average state will have a detrimental impact on our state budget and our capacity to provide services to Queenslanders.

So I do have to make that point and I think it's an important point to be made, but Jim, just in relation to the crux of that question, I don't know if you want to answer it in a technical sense, but I do feel like we are missing the main point here in terms of full reform of our system.

MR COPPEL: Well, why don't we come to that - - -

MS TRAD: Sure, yes.

MR COPPEL: - - - because we do make that point in the draft report, but our terms of reference limit us to looking at the HFE system. We've made that point; we've recognised that point. We also recognise that the CGC

has its own process for how to improve their assessments, so we're not getting into that space either. But let me put the question then to you: if there is a reset of Commonwealth-state financial relations, I mean what would you then see as the end goal of that reset from the perspective of Queensland?

MS TRAD: Well, from the perspective of Queensland, can I say that I think any sort of reset has got to embed flexibility in the approach, certainty in the funding arrangement going forward, but also collaboration in terms of the reform agenda and the change agenda. I think all too often we see in terms of funding to the states and various jurisdictions, particularly under national partnership agreements, those agreements expiring. We have rolled over now the Early Childhood Education Agreement five times. Five times.

Now, I know how important early education is. As a parent I know that, but also as a policy maker I know how important early education funding is and we have now rolled over that agreement five times. That's an indication I think of a failed Commonwealth-state system where we need to nut out how we fund these really important years for children, Australian children, so that we are globally competitive in an environment where skills and knowledge are going to be key.

So that's just a demonstration of the fact that there are some areas of the relationship that are critical to the delivery of services that have just broken down and they need to be repaired. So I think the Finance Ministers' Forum is a good place to start to get a reform agenda, but of course we need the Commonwealth to agree to be part of that process.

MR MURPHY: Well clearly it's addressing, you know, vertical fiscal imbalance and of course it's the roles and accountabilities which state governments have for service delivery. I think if you look at things over time, increasingly states have responsibility for key areas such as health and education and it seems, you know, to be blunt, a little bit - how would I put it? Policy being set in Canberra in the education/health fields for delivery of services in Queensland. It just stretches the imagination.

MS CHESTER: Yes and they're the two levers for federal financial reform that we identified in the draft report and as Jonathan intimated - and some have even said to us - we probably dared a little bit greatly by saying as much as we did in our draft report, given our terms of reference, but - so if we were to look at a fundamental reform or a reset to VFI and getting accountability right in terms of spending responsibility so there is some level of accountability between Commonwealth, state and through to the

electorate, what would you want to see happen there and then would you see the link then to greater scope to a reform of HFE?

5 We've seen others before head down this path in terms of the
Commission of Audit had some reforms of HFE linked to giving the states
greater powers - well, a share of income tax, as addressing - so we're just
trying to get an idea of where you see that path going, because to some
extent where we might take HFE would need to dovetail with that path and
HFE might have more - we're quite constrained with what we're looking at
10 at the moment.

MR MURPHY: Well, if you really were - if you had to draft this it would
be a step by step process. I think the first step would be to sort out roles
and accountabilities between the Commonwealth and the states, say on
15 education. What we find at the present time is increased conditionality
coming from the Commonwealth on how states spend money. I mean,
Queensland is quite happy to report back in aggregates, macro terms, as to
how it's feeling with money that's transferred from the Commonwealth, but
at the present time it goes much more into minutiae and conditionality,
20 which is just a waste of time for most people.

So your first step would be to solve that, then if were, as we put forward
to the Commonwealth, where states had a share of - well all state treasurers
put forward to the Commonwealth that states should have a share of
25 personal income tax. It was only a small share to remiss funding of a
number of the small agreements and that was just kicked into touch by the
Commonwealth Treasurer. So I think there's a step by step process, but at
the same time I would not be moving to be looking at anything on HFE until
other things were done, because my point is, the fact is, other than this
30 recent occasion with Western Australia and to some extent New South
Wales jumping on the bandwagon - I point out Victoria are quite happy with
the HFE, even though they're a donor state.

I think that should be left because it's served everyone's purposes over
35 time and I don't think you'll ever find at a time in federation where all the
states will be of the same political persuasion or agree all on the same policy
terms. So that's why I'm very loathe to say why we should go tampering
with HFE at the present time. If other reforms preceded it, well then there
might be a rationale. I wouldn't do that yet.

40 **MS CHESTER:** Yes, I think there was a missed window in 2004, Jim,
where we had all the state Under Treasurers agreed on equalising across the
average of the four donor states and then WA left the party and it all
crumbled, but anyway, just a little historical insight to share.

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MR MURPHY: But that's federalism, yes.

5 **MS TRAD:** Yes, and I do have to say that any system has got to recognise the inherent complexity and challenges associated with service delivery and costs for decentralised, remote locations and particularly ones that have high indigenous populations, so I think any system has got to recognise the inherent increased costs of providing services in that complex environment.

10 **MR COPPEL:** That's what the CGC does and we're not suggesting any change - - -

MS TRAD: Under the HFE principle. That's right, yes.

15 **MR COPPEL:** Yes. So it would - we've put forward two benchmarks that may lower that level of full equalisation, but in terms of the mechanics behind it all, they essentially remain unchanged. Although we are, like you, positively inclined towards using approaches that simplify the system, we know that this has been looked at many times. It's a bit of a holy grail, but there's still always hope out there and you've also outlined this as one area
20 of work that may be a way of getting simplicity into the system and building through that simplicity greater public confidence across the states.

25 On that point of public confidence, that's very important because that's what really gives legitimacy to the system when there is that public confidence. Do you share our view that there is a lack of public confidence that has probably escalated in recent years and do you have any views on either what we're recommending to raise that level of understanding or other views that will achieve similar goals?

30 **MS TRAD:** I guess from a Queensland perspective I don't share the view that there is a sense amongst Queenslanders that the current system is unfair. I think that the work and the reason why we're here today is fundamentally because there has been a very long-lasting public debate in WA about whether 36 cents in the dollar is adequate in terms of their GST grants.

35 So I fully accept that for WA there is a different level of public awareness around their GST income, but I don't think - that is not the case here in Queensland, but I do have to say that, you know, if the federal government does want to pursue some of the lower levels of equalisation
40 than what is currently being experienced today then we will have to explain to Queenslanders why we can't afford to fund or pay for 5,000 teachers and 5,000 nurses and 3,000 coppers and more than 1,100 fire fighters. That will have to be a big conversation that we will have to have with Queenslanders and I think that they will then think that the system is problematic. So yes,
45 from my perspective this has not been a public debate in Queensland. We

are here today because there has been a very big and loud public debate in WA.

5 **MS CHESTER:** Our report did have a very frank and fair exposition of the contributing factors to the current WA situation from a budget management perspective and indeed, as the Under Treasurer rightly pointed out, it showed the relativities moved just as they should move when you go through the mining investment and then mining boom cycle that WA has, which brings us to the point though of - and why the outlier matters is not
10 so much what's there against the benchmark of equal per capita - which is not the benchmark of HFE; it's an anathema to HFE and we call that out in our draft report - but it does matter to the extent that if the equalisation task is very large, to the extent that there might be some trade-off between equity and efficiency within the way HFE is occurring, that it becomes greater.

15 One of the things we're looking at doing in this final phase of our report is looking - when we did the draft report it was all very backward looking and near term, like what happens next year if we went cold turkey on anything. We're now looking much more with a forward looking lens and
20 looking at sort of projections over four to eight years and ten years.

One of the questions we're looking to ask and answer is to what extent is WA being an outlier a temporary blip versus a medium to longer term blip? Is that something that Queensland Treasury's done some work on or
25 something that you've got a view on, because we've got some guidance from the west which would suggest that, you know, we're looking at this for the foreseeable future, you know; two forward estimate budget cycle periods. Which is a good thing for WA to some extent, because it means they remain fiscally the strongest state.

30 **MR MURPHY:** That would be determined by how the nature of the WA economy transitions to wherever it goes. I mean, to me that's another reason why one shouldn't react to a mining boom. I mean, say were any of the states - say for Queensland, if we had huge investment in technology or
35 tech fields and had increased royalties or increased payroll tax or something - so I think it's hard to predict where Western Australia will go. Over time one would think that it will even out because the mining boom will gradually dissipate for them with the exports, but see, this is again - if we react China could in effect close the door tomorrow and that's the end of your exports of iron ore out of WA. Should we be changing the process
40 because up to now they've done well?

MS CHESTER: No, so that's not the driver, Jim; it's more thinking forward to what's the transition path look like for other states and territory

jurisdictions in terms of how quickly would WA come back in its relativities.

5 **MR MURPHY:** Well, under the process it would gradually come back in its relativities. I mean, but we can't escape the fact that at the present time it has increased fiscal capacity through fortunate events for them, you know, and then - but all economies will change over time. If the South Australian economy got a big influx of investment into the Defence industries, that may change theirs. So I think it's pretty hard to predict, other than you look
10 now and you would flat line out as to what you think may happen.

MS CHESTER: Yes. I think this huge iron ore body, even with movement of commodity prices and what the production levels are coming out, it looks like those royalty revenues are going to stay strong for a very long period
15 of time, but anyway we'll do the good homework on that. I think the area where we probably most agree to disagree is on the equity and efficiency trade-off. We just wanted to get a little bit more of a better sense from your perspective about why you feel so strongly that the impact of - so for example has the state government in the last four to five years contemplated
20 any major state-based tax reforms during the period that you've been Under Treasurer, Jim?

MR MURPHY: Yes, we've been looking at state taxes at the time of the - when the debate was running on the level of the GST. We've looked very
25 hard at replacing all stamp duty with land tax, but it's like other states, we've found it an incredibly difficult task to do that, especially as the impact on the state in the short-term. So we're always looking at payroll, changing payroll rates of taxes and I think the point you're getting to is that in any of those discussions on tax reform which go to the government before each
30 budget as to what you could do and what you think Queenslanders should pay - motor taxes and you know, motor vehicle tax and all this - we've never looked at the impact of the GST on the increased revenue into Queensland.

I think we described it as a (indistinct) issue, but it's actually - we don't
35 even - and I've never known a minister to say to us, well how would that impact on our GST distribution? So I think the taxing - I just don't see it that - in theory it may, but I just don't see it how we would hold back reform, which is always so difficult to do in any of these areas, on the basis of potential impact on GST three, four years out.

40 **MS CHESTER:** I think we were getting to it from the perspective of it's already difficult enough for a state government, particularly if it's going ahead unilaterally, to dare greatly and do tax reform like a stamp duty-land tax switch - - -

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MR MURPHY: Switch, yes.

5 **MS CHESTER:** - - - and then when you actually look through the cameos and see what the costs - how much out of pocket they are then through the GST, it sort of, kind of, beggars belief and that's why we raised it, so that's not theoretical; that's what the actual impact would be on the GST distribution. But I just wanted to get a sense of - so you're saying that - - -

10 **MS TRAD:** But it's a theoretical exercise. As Jim said, we don't look at tax reform and we certainly took a suite of tax changes to the last election. We did the heavy lifting and we took a suite of tax changes to the last election and we were re-elected and now we'll implement them. We didn't compile those additional revenue measures thinking about the impact of the GST on our relativity. That didn't even factor into the conversation, as
15 someone who was sitting around the table at that time.

So I do understand, Deputy Commissioner, what you're getting at, but I do have to say from a practical perspective it is not part of our consideration when we look at tax changes and tax reform and if the point
20 around tax versus efficiency, Queensland is still one of the lowest taxed states in this nation and we think in and of itself that is a status which does attract additional efficiencies and additional investment.

MR COPPEL: How about a new tax, totally new tax? I don't have a
25 specific example in mind, but wouldn't the question be asked how this new tax would be treated by the GST, because that could - by the CGC. That could - the answer to that question could be quite significant in terms of deliberations and I accept that there are a whole bundle of other factors that enter into it, that decision.

30 But if there's uncertainty as to how the CGC may treat a new tax, we've identified that as a potential issue and we've suggested as a recommendation that there be some mechanism for where a state government can ask for an opinion on how that would be treated. We think
35 that would provide greater clarity, greater certainty. I don't know if you have any views on that or whether you've had any experience of - whether you've asked the question or are uncertain about how a particular measure may be treated and how that then would bear on the distribution to Queensland.

40 **MR MURPHY:** Yes, well look, let me just say - I mean, this is all speculative. I mean, states have a very narrow tax base and it's hard to think of what would be a new tax which we could implement, so you know, that may be the case; floating something or a ruling from the Commonwealth
45 Grants Commission could be helpful, but all I can say is at this stage it's

hard to see what we could develop as a new tax and up to this stage we have never taken account of GST implications for any tax reform in Queensland.

5 **MS TRAD:** But I'm not sure what the exercise is here, given that, you know, from Queensland's perspective we could be facing a \$1.6 billion shortfall in terms of our GST grants to the state. What is the purpose of the exercise? Is it about testing the theoretical capacity of a state to actually do the work necessary to introduce a constitutionally viable new tax for their system to replace inefficient taxes? But meanwhile at the same time you've
10 got a \$1.6 billion cut to GST revenues for the state. Like, I'm not actually sure what the purpose is here.

If the purpose is about driving efficiencies at a state level to look at revenue generating taxes and options, then again I get back to my point
15 about Commonwealth-state financial relations. All of the tax reform that has happened, massive economic reforms that have happened in this nation, have been done over a long-term collaborative effort between multiple jurisdictions and that is a format that we know has worked successfully in the past and one that we should pursue. I think it would be very - it's not
20 for GST relativity considerations, I would say as a politician sitting at this table; it's more for political ramifications or consequences to go out and float a brand new tax in isolation of any other jurisdiction.

MS CHESTER: No, so I think our terms of reference explicitly asked us
25 to look at are there efficiency consequences for the way that HFE is currently done and so that's an area that we've delved into; we've delved into it greater than some previous reviews have through the cameo analysis. But we're just looking to ask and answer the question - and it draws on lots of - like the Henry Tax Review and others, which identified that separate to
30 Commonwealth-state federal financial reforms and tax bases, there's still a lot of tax reform that's on the table for state and territory jurisdictions to do in isolation, individually.

So that's a question we've been asked to look at and to answer, Deputy
35 Premier, and that's what we're doing. In that context, though - and it's this whole issue of incentives and policy neutrality; it's not just about tax, it's also about development activities. The CGC in one of their recent papers though have come up with a proposal to try to address one of the policy neutrality issues as it relates to a state making a decision to increase taxes,
40 so they're accepting that there are these efficiency problems and policy neutrality problems within the current HFE arrangements, so their current proposal on the table is that if you're a state where you dominate a tax base, if you increase your royalty rates you get to keep 50 per cent of the dividend from doing so. Which in and of itself you can only kind of think of that

being WA and iron ore at the moment, but it would be good to know if Queensland can see it applying anywhere else.

5 That to us would be a departure from full and comprehensive equalisation. So these are other options that are on the table by the CGC for formulaic changes to address policy neutrality and incentive issues. We're kind of looking at it holistically; we've got others looking at it a little bit more piecemeal, so it would be good to get your thoughts and feedback on that.

10 **MR MURPHY:** Well that's come on - that's going through - I think it's one of the Canadian jurisdictions introduced that 50 per cent retention of royalties and then 50 per cent gets redistributed. A mining state. I still go back to our principle that we think that we should just stick with the equalisation principle because that is what has proved the test of time, it works in practice and I mean, the majority of states for the majority of the time are quite happy with the way that's worked, so yes I can see it could benefit - like, it's directed at mining now but it could be directed at something else, but I just don't see the strength in the argument, actually.

20 **MR COPPEL:** But this suggestion from the CGC is keeping the principle the same. It's just an extension of one of many areas where they do apply discounts per capita because they don't have the information to be able to make the calculations with sufficient confidence, so it's keeping the principle exactly the same but in practice it's leading to something which is less than same level of services like you've articulated in your submission, which takes me back - what's the degree of margin that you have been the same and similar? You seem to suggest that it's almost one and the same thing, but the practice of how these calculations are made can lead to quite radical differences between the two.

30 **MR MURPHY:** Well, I don't know if that's right. I think if we get to debate same and similar, we were asked in that submission to come up with suggestions of how you could look at the process to make it fairer, make it a better process. We've come up - we suggested similar fiscal capacity because we thought that would give more flexibility. We haven't said - we said it should be looked at by the Commonwealth Grants Commission as to whether that would be of use to them to enable them to be less criticised for false precision as to what they do.

40 So that's the strength of what we've put forward: it's a suggestion for someone else to actually look at. So as I say, they should be looking at and getting submissions on what people think about having a 50 per cent retention and a 50 per cent redistribution on large windfalls. Yes, let's have people have their views.

5 **MR COPPEL:** You made the point, Minister, that equalisation to the average as one of the options that was put in the draft report would mean one and a half billion into Queensland and that would be if it were effectively implemented overnight, given the current relativities. Has Queensland looked at what that would mean looking forward? So relativities do change depending on the economic fortunes and relative economic fortunes of the states. Has there been any work that's looked at what possible impacts of that measure would have for Queensland?

10 **MS TRAD:** Look, we obviously do our own forecasting, but that is, you know, simply forecasting. I do have to say, if the question is about whether or not, you know, absorbing a significant cut to GST revenue from the Commonwealth of \$1.588 billion could be more easily absorbed over ten years than one year, then I make the point that a cut is still a cut. You will still have to account for the fact that there will be 14,000 less frontline public servants throughout our state providing the health, education and emergency services that Queenslanders need.

20 So of course, over the long term there will always be adjustments and changes, but you know, a significant cut of this size and scale will have a detrimental effect, whether it's over one year, three years or five years or ten years; it will have a significant impact on our ability to provide quality services to Queenslanders regardless of where they live.

25 **MS CHESTER:** Just from a budget management perspective - and this might be more a question for the Under Treasurer, but let you decide, Deputy Premier, who you want to answer the questions we put to you. From a budget management perspective, what we're looking at, even if we were to do it cold turkey overnight, sort of represents between 2 and 3 per cent of your revenues, because \$1.588 billion always sounds large, but when you then look at it as a percentage of revenues it's a different quantum.

35 In terms of just budget management, Jim, are there sort of rules of thumb that you have as Under Treasurer in terms of what's kind of manageable in a fiscal management digestion sense year to year? What variance in own-source revenues can you cope with, what sort of levels of efficiency dividends to you require of different portfolios on an annual basis these days? I'm just trying to get a sense of really - we have to look at transition paths and we do want to get a pragmatic and practical sense of -

40 - -

45 **MR MURPHY:** Well, I just reiterate what the Deputy Premier has said. It would be extremely difficult to absorb a significant diminishing in the level of the GST that we receive. We've got an ageing population - well, you've

got an ageing population on one hand; on the other hand, we're still building schools in Queensland to cope with, you know, like influx of more children and we've got the remote issue, the remoteness of the whole place. So we run an expenditure and a revenue where roughly our revenue is about \$55 billion and we're spending around \$54 billion to meet the expectations of the community. It's not profligate; it's actually meeting the expectations of the community.

So I think it would be very difficult and it would have to be led from cutbacks and the reason we focus on the pubs is because that's where a lot of the funding goes. It's the service delivery by the public servants and so that's the obvious place, if you have to find savings, that's where you have to go. So yes, you know, we have - I think if you want to - the comprehensiveness of the Treasury's analysis and factual information, if you look at Budget Paper 2 for Queensland, it is a comprehensive and a - and it started before my time, but the people there produce a very good analysis and virtually every question you would have about the Queensland economy is in that budget paper, so it's pretty rigorous.

MS CHESTER: No, and the team are working through those documents. It's just we're here in a public environment talking about what you think the impact is on Queensland and we're trying to get an open and - - -

MS TRAD: Well, let me talk to you about the transition path, because in terms of the transition path from where I sit and from where Jim sits, it wouldn't just be in terms - it just wouldn't be about absorbing the changes to the GST revenue to the state. We are being asked to fund at an increased level changes under the Gonski Mach 2 model, find money for the Royal Commission reparation process, we've had the Commonwealth step back from providing \$100 million for housing in remote indigenous communities. Now I'm not sure how we're going to close the gap if we're not providing houses to indigenous people in indigenous communities.

There's the Commonwealth stepping back from bowel cancer screening and treatment and that's a service that many Queenslanders have come to rely upon, because we've actually invested in communicating and raising awareness around the importance of bowel cancer screening. So just in and of itself there, there are a number of fundamental funding issues that have been driven by the Commonwealth vacating the space, as well as the prospect of a diminished amount of GST revenue and all of that has to be factored in from where I sit and from where Jim sits and the Queensland government. So any sort of transition plan, can I say, is going to be incredibly difficult considering the agenda that has been provided by the federal government.

45

MS CHESTER: Which I think takes us kind of full circle back to medium to longer term federal financial reforms here - - -

MS TRAD: Yes, correct.

5

MS CHESTER: - - - finding responsibilities and thus seeing HFE reform as part and parcel of that, is that something then that the Queensland government would be more prepared to contemplate?

10 **MR MURPHY:** Yes, but I think it's one of these things that - there's so many fundamental things that would have to happen before you start looking at HFE. That'd be my view. Especially in roles and accountabilities. I just think that's where inefficiency lies. For someone who's worked in Canberra for a long time, that's where the inefficiency lies
15 not at the service level, not at the service delivery level, in my view.

MR COPPEL: One of the - you mentioned that the - or at least that the Queensland Treasury does to forecasts and a number of other states do it the same and have shared with us that information. Is that something that
20 you could share with us, from Queensland?

MR MURPHY: Yes, we can provide you with that.

MS TRAD: Yes, we'll have a discussion.
25

MR COPPEL: Thank you.

MR MURPHY: Actually, my comment is our forecasts are reasonably - we don't have difficulty in forecasting GST revenue, luckily.
30

MR COPPEL: You don't?

MR MURPHY: No. We find that there's not big variances with what we think will happen and we plan on that basis and what actually comes out.
35

MS TRAD: That's Jim saying his Treasury Department is pretty good.

MS CHESTER: He's doing a good job at saying that.

40 **MR MURPHY:** No, but that's what's happened and my people, my forecasters, tell me they can - we look at other states, we do comparisons and rule of thumb, because we won't overestimate, of course. We don't want to put the government in a position where it thinks it has more revenue than it will get. But no, that's what's happened. That's the information I've
45 given the forecasters, that they do a reasonably good job.

5 **MS CHESTER:** Just one final question that I have. It comes back to the issue of indigeneity. That was an area that we really grappled with long and hard in our draft report; it may not be obvious when you look at the press coverage on our draft report and it would be good to get your views and feedback in terms of where we landed. Where we struggled was people would point to indigeneity as it's manifested in the percentage of cohort of population and remoteness with the disability factors, with the CGC calculations.

10
15 Then some academics have done work that looked at, particularly for the Northern Territory, what sort of assessed expenses would go to the Northern Territory for indigeneity and what was actually spent on indigeneity, thus that people then said just take indigeneity out of HFE completely and then go back to a system of tied grants from the Commonwealth. Where we landed was to say it's not a simple issue of in or out. HFE is a much broader issue in terms of let's get roles and responsibilities and accountabilities right there. Indeed, that should be first
20 cab off the rank in terms of the medium to longer term federal financial relations in terms of responsibilities and only then and there would you then work out what would need to still be taken into account in the context of HFE.

25 So sorry, that was just a shorthand way of saying the journey that we went through and where we landed, which is no change to the current arrangements, but first cab off the rank, the Commonwealth-state responsibilities. Just wanted to get your thoughts and reactions to that, Deputy Premier?

30 **MS TRAD:** Deputy Commissioner, look, I think that's spot on. I don't think indigeneity should be taken out of HFE. I think that there are - I think you're right in terms of roles and responsibilities. We, in fact, at a state level have done work through the Productivity Commission around the amount of money that we spend in discrete indigenous communities and the
35 outcomes and we believe that there's a lot of reform that should be happening at both the state and the federal level in terms of ensuring that there are reasonable but good, effective management processes in place, ones that actually give rise to autonomy and self-determination in communities so that they can make the critical decisions around the provision of services, because they in many cases can actually provide
40 excellent advice, guidance and do it better themselves.

45 In fact, in a lot of examples - particularly in an urban environment and you know, we're not just talking about indigenous populations in discrete, remote locations throughout Queensland, but in heavily metropolitanised or

urban areas as well, where there is a discrepancy between the life outcomes and the life opportunities of people of Aboriginal and Torres Strait Islander background. So we have got, in Queensland, both; we have got a very big population - and in fact, our biggest indigenous population is in the south east Queensland corner - but we also have a lot of remote indigenous and Torres Strait Islander communities right throughout Queensland. So that's a piece of work that we are undertaking as well.

5
10 **MS CHESTER:** Okay, thank you.

MR COPPEL: It's tangential but I think it's related particularly to the principle of HFE and that is there's a similar system for how Commonwealth funds and state funds are allocated to local governments as there is from the Commonwealth Grants Commission to the states and territories. Similar aspirations, but it's not a system of full equalisation by any means and I was wondering whether you had any comment on the way in which the state system of equalisation among local governments functions and whether there are any sort of lessons or lessons of what not to do that may come from your experience with this system?

15
20 **MS TRAD:** Well, from a state's perspective I'm not sure it's quite the same system as the GST/HFE distribution principle, but certainly from a state perspective the way in which we approach funding local councils, local government areas is very much based on the capacities of those councils to raise revenues themselves. There are councils throughout Queensland that do not have a rates base whatsoever - a lot of indigenous councils - and of course the state needs to be able to assist in providing services and you know, support for those councils to function in and of themselves.

25
30
35 So it's not purely the same, but we do have a process of actually acknowledging and there are Commonwealth-state funding programs that are jointly funded to provide those levels of services, but as a state we are making big investments in terms of some of the ageing infrastructure in these local councils and communities through waste water treatment facilities; we have implemented the Works for Queensland program, which is a program ideally around stimulating local council workforces and local economies, but fundamentally it is about providing money to councils to get infrastructure projects that just never get funded because they don't have the capacity to fund it through their rates base as it is.

40
45 But we are in Queensland also moving away from that and you would have seen through the Townsville City deal a new approach to how every jurisdiction funds or creates a pipeline of projects that can be funded across the three jurisdictions to really encourage economic development and

5 growth and self-sufficiency within communities. So Townsville has been the first cab off the rank and we are looking at other opportunities to partner with the Commonwealth and local councils around other sort of city deals for Queensland, so I think there's a lot of change that's happening at a council level through that process, but it's - yes, it's certainly one that we're still working on looking through.

MS CHESTER: Yes. Okay.

10 **MR COPPEL:** Yes, thank you very much, Treasurer. Thank you to Jim.

15 **MS TRAD:** Thank you. Can I close by thanking you very much for responding to our invitation and coming to Queensland? It's been great to have you here and I certainly thank you for the opportunity to present. Can I also thank the Under Treasurer and the Treasury officials who put a lot of work into today as well and Queensland's submission to the Productivity Commission. I'll put on public record my thanks, so thank you.

20 **MS CHESTER:** Our thanks as well.

25 **MR COPPEL:** We're going to end the hearings for today in Brisbane, unless there is someone else in the room that hasn't had a chance - hasn't registered, but would like to give a few brief remarks and if not, then I formally close this public hearing, which is the final public hearing for the inquiry into HFE. Thank you.

ADJOURNED INDEFINITELY

[3.24 pm]