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GST Distribution Review
The Treasury
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QUEENSLAND TREASURY CORPORATION SUBMISSION TO THE GST DISTRIBUTION REVIEW — JULY 2011

Queensland Treasury Corporation (QTC) is pleased to provide its submission to the GST Distribution Review 2011.

Our submission recognises the important role that Commonwealth-state relations play in facilitating economic and social reforms in key areas of national importance. We also acknowledge that pursuing such reforms with a coordinated national focus is essential to sustainable economic development and improving people's well-being at a state and national level.

Our submission focuses in particular on the requirement to identify and prioritise the investment of finite public funds in key infrastructure projects that demonstrate a contribution to the nation's and the State's long-term economic prosperity and standard of living. Achieving the right investment in infrastructure networks, such as efficient and competitive international gateways, freight networks, and public transport is essential to driving sustainable economic growth, lifting national productivity and enhancing people's well-being.

In its report, *Getting the fundamentals right for Australia's infrastructure priorities*, the Commonwealth Government's independent advisor on matters relating to infrastructure, Infrastructure Australia, identifies a pipeline of projects across the states that it considers key to strengthening the national economy and dealing with the challenges of sustainable population growth, export bottlenecks, urban congestion and climate change. The current capital cost of these projects is estimated to be more than $82 billion.

While jurisdictional responsibility for developing and implementing infrastructure networks rests largely with individual state and local governments, it is important to recognise that inadequate networks have economic and fiscal implications across all jurisdictions. This jurisdictional interdependency demonstrates the importance of the Commonwealth and states' coordinated national focus on identifying and prioritising investment in nationally significant infrastructure projects.

The *Intergovernmental Agreement on Federal Financial Relations* reflects the Commonwealth's and the states' shared responsibility and commitment to fund key service delivery areas. Specifically, the Commonwealth Government provides financial assistance to the states by way of National Special Purpose Payments and National Partnership Payments to co-contribute with states in the delivery of specified output or projects, to facilitate reforms, or to reward jurisdictions on the delivery of nationally significant reforms.

The Intergovernmental Agreement also outlines the treatment of National Special Purpose Payments and National Partnership Project Payments in determining the distribution of GST funding. Specific - purpose Commonwealth payments are treated by 'inclusion' in calculating states' GST revenue-sharing relativities. Commonwealth specific purpose payments to a state that is above the average per capita of all other states are subject to 'equalisation', reflecting the perspective that these payment contribute to the states' overall fiscal capacity. This approach, however, fails to take into account the Commonwealth and states' recognition that a higher level of fiscal capacity may be required at a point in time and at a specific location to deliver priority infrastructure of regional and national strategic importance.

In effect, the existing approach to federal financial relations obliges states to deliver particular infrastructure projects which attract Commonwealth co-payments, but through the equalisation process, reduces states' own fiscal capacity to co-contribute. Treating Commonwealth payments in the calculation of states' GST revenue-sharing relativities, therefore, distorts the 'real' funding- and risk-sharing outcomes agreed between the Commonwealth and the states to deliver nationally significant infrastructure priorities. At the same time, a larger share of GST funding is redistributed to other states on an untied basis to pursue spending policies, potentially without the same level of economic benefit or priority at a national or state level.

The Intergovernmental Agreement gives the Commonwealth Grants Commission discretion, following consultation with the Commonwealth and the states, to treat any national partnership payment or general revenue assistance differently. By default, the Commission treats Commonwealth payments by 'inclusion' where that payment provides revenue which states can use to provide a service or to acquire an asset, and the state has discretion on how it is spent.

By this axiom, Commonwealth payments to states for infrastructure projects are subject to equalisation, even though the project is endorsed as being of national significance, following a rigorous, objective and independent assessment process.

Our strong view is that the assessment of states' GST relativities should, by default, exclude any Commonwealth payment made directly to a state to support the delivery of nationally significant projects, which are assessed under a COAG-agreed or -endorsed national prioritisation framework. Removing such payments from the determination of GST distributions would remove the distortionary impact that horizontal equalisation has on the Commonwealth's shared investment with the states in delivering priority nation-building infrastructure.

However, taking this important step toward more efficient federal financial relations must also recognise the effect of previous Commonwealth specific purpose payments on the assessment of states' GST relativities. In that regard, a suitable transitional arrangement would need to be adopted to ensure that states whose GST relativities have recently been impacted by the existing arrangements are equitably treated by changing the arrangements.

We would be pleased to discuss the views outlined in our submission further.

Sincerely

Stephen Rochester
Chairman