SUBMISSION TO THE QUEENSLAND STATE GOVERNMENT

State Budget 2012-13

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

31 JULY 2012

Chamber of Commerce & Industry Queensland

Powering business potential

Contents

1.0 Introduction

1.1 As the State's peak business organisation, the Chamber of Commerce and Industry Queensland (CCIQ) wishes to provide constructive input to the 2012-13 State Budget. CCIQ regards the State Budget as the Government's foremost instrument of economic management within Queensland and will be the pivotal mechanism for rebuilding the State's sound financial position.

1.2 This submission should be read in conjunction with, and builds upon, CCIQ's 'The Big 3 for Business' released in February 2012. At the outset CCIQ wishes to highlight that it is strongly committed to the State Government's efforts to stabilise debt levels, return the budget to a fiscal balance by 2014-15 and regain Queensland's AAA credit rating.

CCIQ highlights that since 2007 the Chamber has repeatedly stated its growing concern over the inability of the State Government to spend within its means. Quotes from our December 2007 State Budget Submission include:

Commerce Queensland (as CCIQ was then known) urges that the State Government commit to a path of responsible economic management and pro-business policy settings. It is important that the State Government:

- *Deliver a budget operating surplus;*
- *Keeps recurrent expenditure under control;*
- *Increases public sector infrastructure spending with emphasis given to encouraging private sector involvement in major public infrastructure projects; and*
- *Commits to ongoing business tax reform that will improve Queensland's business tax competitiveness.*

More specifically ……….

Strong efforts must be made to ensure the growth in departmental operating expenses do not rise unchecked. Duplication and inefficiency in the government sector results in an unnecessary taxation burden on business.

………….. Recent public sector employment trends are of concern. Commerce Queensland supports the need for a small, flexible, highly skilled public sector with the knowledge and capacity to work cooperatively and engage with the business. The current size of the public sector is not optimal, and can place unnecessary pressure on private sector wages and the ability to attract skilled labour. Indeed the Queensland State Service has grown by 15 3% since February 2000 and on a number of persons per State Government Employee basis is clearly over governed compared to New South Wales, Victoria and the National Average.

………….. There must be a continuing commitment on the part of Government to quit those areas of activity which can be more efficiently provided by the private sector.

In each and every year since, CCIQ has rearticulated and reinforced the above sentiments. In summary CCIQ is the strongest supporter of the State Government's current efforts to reign in Government expenditure.

2.0 The Big 3 for Business

2.1 In February 2012 CCIQ released 'The Big 3 for Business', a list of business priorities in the run up to State and Local Government elections. As an organisation we are determined that business issues highlighted by our members are at the forefront of the political process, in order to ensure that the State Government is intimately aware of what is required to restore business confidence and in turn investment and employment. The 'Big 3 for Business' called for:

1. Better Economic & Fiscal Management
2. A Reduction in Government Costs on Business
3. A Reduction in Government Red Tape

2.2 Over the course of the election campaign the LNP with much support from CCIQ committed to a range of initiatives to assist business including:

- Reduce red tape by 20%.
- Reign in Government expenditure.
- Increase the payroll tax exemption threshold from $1 million to $1.6 million.
- Scrap the commercial waste levy.

This was a great result for business and is bringing about direct and indirect savings for the vast majority of Queensland businesses, contributing to greater confidence, opportunity and benefits for the whole of the economy and wider community.

2.3 In terms of this State Budget submission CCIQ believes it is not practical to lobby for a further improvement in the competitiveness of Queensland's business operating environment (excluding the actioning of existing election commitments) given the enormous task ahead in restoring the State Budget's fiscal integrity. Accordingly as the core of our State Budget Submission 2012-13 CCIQ wishes to specifically respond to the:

- Queensland Government's Interim Response to Commission of Audit; and
- Queensland Commission of Audit – Interim Report June 2012.

In respect to the above CCIQ at the outset caution's the State Government against imposing any additional costs on Queensland businesses to address the Budget deficit and accumulation of debt.

3.0 CCIQ Summary

3.1 Good economic and fiscal management has the profound ability to influence business and consumer confidence, spending and investment decisions. Queensland businesses are concerned about the State Government's inherited deficit sizes and high levels of Government spending.

3.2 The State Government's commitment to fiscal discipline and actions to commence bringing the State Budget closer to a sustainable position is commendable. We must systematically go about restoring the State's vitally needed AAA credit rating. The Queensland Commission of Audit's Interim Report confirms the urgent need to reign in recurrent expenditure.

3.3 Key points that can be discerned from the State's financial position in the absence of remedial action:

- Expenditure has and is increasing at a significantly higher rate than revenue;
- The budget position has been progressively eroded with actual and forecast deficits;
- Debt is expected to peak at $100 billion in 2018-19 with an annual debt servicing bill of $5.3 billion;
- Public debt interest has been the fastest growing expense of the Queensland Government over the last decade;
- Forward estimates do not contain trends that will restore the State's vitally needed AAA credit rating and could possibly lead to a further downgrade;
- The overall trend in recent years has been one of deterioration driven by growth in recurrent spending; and
- The major source of growth in expenditure was employee expenses, both in numbers and wage levels. Over the period 2000-01 to 2010-11, employee expenses increased at an average of 8.7% per annum.

3.4 Failure to reduce spending growth will threaten the sustainability of our public finances over the medium term and damage the economy's competitiveness through dependence on prevailing inefficient business taxes and charges.

3.5 Queensland is dramatically out of sync with the budget positions of other States. This is no doubt the major contributing reason for the Credit Rating Agencies' poor assessments of our financial position. The challenge for this State Government is to improve Queensland's fiscal management. CCIQ believes the only way that this can occur is by dramatically reigning in the expenditure of the State Government.

3.6 During the most recent economic downturn the Queensland business community has had to look at its own expenditure in order to balance the books. Businesses are rightly asking why the State Government should be any different.

4.0 CCIQ Recommendations & Key Points

4.1 The Queensland Government must adopt strategies that achieve a more efficient and effective public sector. Such policies would bring about a return to a budget operating surplus and the restoration of the State's AAA credit rating. The State Government has the full support of CCIQ in this regard.

4.2 CCIQ supports the State Government's set of fiscal principles due to their strong alignment with CCIQ's own fiscal statement for Government.

4.3 CCIQ supports a debt to revenue measure on the basis that it can be directly influenced; is within the control of the State Government; and meets the criteria of being simple and transparent.

4.4 CCIQ favours achieving a <u>fiscal</u> surplus (over an operating surplus) by 2014-15.

4.5 CCIQ urges the Queensland Government to cement in its long term strategy ensuring we continue to have a business tax regime that is the most competitive of all States. CCIQ particularly supports the inclusion of the word 'Business' in Principle 3 – Maintain a Competitive Tax Environment for Business.

4.6 CCIQ is supportive to the State Government's efforts to reduce the State Government Service head count by approximately 20,000 FTE positions.

4.7 CCIQ wishes to be consulted by the Commission of Audit when examining Terms of Reference Five.

4.8 CCIQ supports the Commission of Audit's recommended two stage process of stabilising the growth in debt and returning the budget to a General Government fiscal surplus by 2014-15; and reducing the accumulated Total Government debt to restore an AAA credit rating and provide a buffer to keep that credit rating. However CCIQ does not support reducing the debt to revenue ratio to 60% believing the target is too aggressive. CCIQ believes a more appropriate target should be 75% - 85%.

4.9 CCIQ supports the Commission of Audit's recommended Financial and Performance Framework subject to the above revision.

4.10 CCIQ cautiously supports the implementation of a Queensland budget deficit levy and a primary residential property land tax to assist in returning the budget to surplus by 2014-15.

4.11 CCIQ supports the use of asset sales provided the proceeds are used to retire debt and only after the embedded structural state budget deficit is addressed.

4.12 CCIQ strenuously opposes any consideration of payroll tax or any other business tax being increased in the future to achieve the second stage of the Fiscal Strategy.

4.13 CCIQ is committed to working with the Queensland Government in partnership to highlight the impact of red tape and help identify opportunities for reform. CCIQ avails itself to assist each State Government Department to reduce their portfolio's regulatory burden by identifying regulatory hot spots and actioning specific feedback and case study examples of priority areas.

5.0 Queensland Government Interim Response to Commission of Audit

CCIQ provides the following feedback to the State Government on key sections of its Interim Response to the Commission of Audit.

Queensland Government	CCIQ
Implications For Fiscal Principles The Queensland Government went to the 2012 election with the following set of fiscal principles aimed at restoring Queensland's fiscal position: • Return the budget to operating surplus by 2014-15 and pay down Labor's debt • Ensure expense growth does not exceed revenue growth • Subject major capital projects to Cost Benefit Analysis • Put in place a plan to regain the AAA credit rating to reduce the cost of borrowing • Fully fund long term liabilities such as superannuation in accordance with actuarial advice	**CCIQ supports this set of fiscal principles as it strongly aligns with CCIQ's own fiscal statement for Government, which is:** The State Government must increase its actions to: ▪ Deliver a budget operating surplus as soon as possible; ▪ Reign in recurrent expenditure; ▪ Continue with its public sector infrastructure spending with emphasis given to encouraging private sector involvement in major public infrastructure projects; and ▪ Use asset sale proceeds to retire debt or fund new infrastructure and not used for recurrent expenditure. More specifically CCIQ encourages fiscal responsibility and the enhancement of a competitive business operating environment within Queensland. CCIQ advocates the following interacting fiscal strategies as the framework to achieve a healthy sustainable Queensland economy. ***Budget Position:*** *Better management of the State's finances in a fiscally responsible manner.* ***This principle must be adhered to whilst also pursuing the following budget principles which are in order of CCIQ priority:*** ***Red Tape:*** *To have the lowest red tape burden in Australia.* ***Taxation:*** *To have a business tax regime which is the most competitive of all states and which promotes growth and encourages participation.* ***Charges by Public Utilities:*** *To ensure that charges imposed by public utilities (water, energy, ports etc) are the most competitive of all States.* ***Government Services:*** *Provision of a range and level of Government Services which meet reasonable community expectations at a cost consistent with best practice.* ***Infrastructure:*** *To ensure that essential public infrastructure is maintained on a sustainable basis at a level which will encourage economic development and that maximises the use of the private sector.* *Source: Pages 13 -14 Big 3 for Business: Business Priorities for Queensland's State Government, February 2012.*

PRINCIPLE 1. **Stabilise Then Significantly Reduce Debt** *Relates to the Government's election time principles of:* *- Return the budget to operating surplus by 2014-15 and pay down debt* *- Subject major capital projects to Cost Benefit Analysis* *- Put in place a plan to regain the AAA credit rating to reduce the cost of borrowing* *- Ensure expenses growth does not exceed revenue growth* A debt to revenue measure is a better and more direct indicator of affordability than debt to GSP as it better reflects what a state can control. Further, both debt and revenue are separate line items in the State's accounts, meeting the criteria of simplicity and transparency.	**CCIQ supports a debt to revenue measure on the basis that it can be directly influenced, is within the control of the State Government, and meets the criteria of being simple and transparent.**
PRINCIPLE 2: **Achieve And Maintain A General Government Sector Fiscal Balance By 2014-15** *Relates to the Government's election time principles of:* *- Return the budget to operating surplus by 2014-15 and pay down debt* *- Subject major capital projects to Cost Benefit Analysis* *- Put in place a plan to regain the AAA credit rating to reduce the cost of borrowing* *- Ensure expenses growth does not exceed revenue growth* The achievement of an operating surplus in itself is not sufficient for Government to attain fiscal sustainability or maintain or improve its credit rating given the impact of capital investment on the debt position. Governments need to strike a balance between an investment in capital to meet population and economic growth and the affordability of that infrastructure. Accordingly, the Commission of Audit has recommended the more difficult target of achieving a fiscal surplus in 2014-15. Fiscal Balance combines the new capital program and the operating balance. It is defined as the net operating balance less net acquisitions of non-financial assets (purchases of non-financial assets less depreciation). Fiscal Balance will replace the operating balance as the primary fiscal target of the Government. The Government will seek to achieve a Fiscal Balance by 2014-15.	**CCIQ favours achieving a <u>fiscal</u> surplus (over an operating surplus) by 2014-15.**
PRINCIPLE 3 **Maintain A Competitive Tax Environment For Business** *Relates to the Government's election time principles*	**CCIQ particularly supports the inclusion of the word 'Business' in this principle.** The Queensland business community has delivered

of: *- Return the budget to operating surplus by 2014-15 and pay down debt* *- Put in place a plan to regain the AAA credit rating to reduce the cost of borrowing* There are various methods of measuring tax competitiveness, but they show a similar picture. While increases in taxes have occurred over the last decade Queensland has a relatively competitive tax environment for business. Queensland's General Government taxation revenue as a percentage of GSP has fallen over the past decade (in part reflecting the relative weakness in the property sector and the abolition of State taxes under the Intergovernmental agreement). Queensland's tax take is also significantly less than the average of the other states.	a robust revenue base for the Queensland State Government over recent years. • Payroll tax receipts since 2001-02 have increased by nearly $2.3 billion or 190.5%. • Stamp duties since 2001-02 have increased by over $1.2 billion or 72%. • Total state taxation receipts since 2001-02 have increased by nearly $5.7 billion or 118%. This represents a very high and growing level of reliance on businesses to fund Government services. Business acknowledges and accepts that certain levels of taxation are necessary to ensure the provision of social and business services. However the State Government must take steps to limit its dependency on the Queensland business community to fund General Government expenditure. In general, business in this State is facing increasing competition not only from domestic markets but from overseas. The competition is not standing still and a number of State Governments have sought to greatly improve their State's competitiveness in recent years. If Queensland does not respond to initiatives occurring elsewhere our attractiveness will be diminished in the eyes of potential and existing investors. Queensland's business environment continues to be attractive; however its competitiveness has continually been eroded since 2001-02. Using the Commission of Audit's own methodology in 2001-02 our taxation effort was 85.7. This has steadily been rising across the decade and now registers at 87.2. Additionally taxation as percentage of GSP has fallen in Queensland but has fallen at higher rate nationally since 2001-02. Both highlight our eroding competitiveness. *Source: Pages 24-29 Big 3 for Business: Business Priorities for Queensland's State Government, February 2012* **CCIQ urges the Queensland Government to cement in its long term strategy ensuring we continue to have a business tax regime that is the most competitive of all States.**

PRINCIPLE 4 **Target Full Funding Of Long Term Liabilities Such As Superannuation In Accordance With Actuarial Advice.**	**CCIQ currently opposes the Federal Government's move to increase the superannuation guarantee charge from 9% to 12% on the basis that it is a significant cost increase that will be paid by Queensland employers including the State Government. CCIQ believes that the State Government should strenuously oppose this increase.**

Implications For 2012-13 Budget Strategy The Queensland Government commits to implementing savings and other measures of over $4 billion over three years and more if needed to achieve a fiscal balance in 2014-15. As the Independent Commission stated, most of the repair must take place on the expenditure side as that is where most of the damage occurred. The Government has already commenced action to limit employee expenses growth to 3% and cut consultants, advertising and travel by 20%.	One of the key outcomes sought by Queensland businesses from the new State Government is better economic and fiscal management. This is required to bring the State Budget closer to a more sustainable position and restore the State's AAA credit rating. The overall trend in Queensland's finances in recent years has been one of deterioration driven by growth in recurrent spending. CCIQ believes this has been driven through two prevailing trends: Firstly in each of the past five years public sector wages growth has significantly outpaced private sector wages growth as measured by the ABS Labour Price Measure. Since the GFC wages growth for the private sector in Queensland has grown by 15.7% yet public sector wages in Queensland has grown by 19.4%. This difference would account for approximately $707 million in budget savings in 2011-12. That is applying private sector wage outcomes to the public sector would have wiped a quarter of the budget deficit off the books. Secondly the Queensland Public Service Commission confirms as at March 2012 the head count of public servants (prior to recent State Government efforts to reduce numbers) stood at 206,881 FTEs. This compares with 147,722 in June 2001. That is the QPS has grown by a whopping 59,159 FTE positions or by 40% since June 2001 which is quite clearly unsustainable. Furthermore since the GFC the QPS has grown by 18,908 FTEs an outcome that is totally at odds with Queensland's private sector. Queensland businesses were and are looking closely at their own expenditure to ensure they remain profitable and viable, and the Queensland Government should not be any different. CCIQ believes that the Queensland community would understand that the public sector has to shoulder more responsibility for cost saving measures if the facts are continually provided. CCIQ continues to have a role to play in this regard. Subsequently, CCIQ was supportive of the *Industrial Relations (Fair Work Act Harmonisation) and Other Legislation Amendment Bill 2012* to ensure the State's financial position and fiscal strategy are taken into consideration when determining wage outcomes for the Public Service. Furthermore CCIQ is supportive of the State Government's efforts to reduce the State Government service head count by approximately 20,000 FTE positions. *Further information is on pages 16-17 Big 3 for Business: Business Priorities for Queensland's State Government, February 2012*

6.0 Queensland Commission of Audit - Interim Report June 2012

CCIQ provides the following feedback on key sections of Queensland Commission of Audit's Interim Report.

6.1 Interim Report to Commission's Terms of Reference

Commission of Audit	CCIQ
The Economy a) whether any government policies, taxes, regulatory arrangements, ownership structures or actions or inactions represent a constraint on Queensland's economic growth b) recommendations to generate long-term systemic reform to grow and strengthen the Queensland economy.	CCIQ notes these elements of the ToR will be addressed in the Commission's subsequent Reports in November and February 2013. CCIQ wishes to be consulted by the Commission given the importance this directly has to our members.

6.2 Executive Summary

Commission of Audit	CCIQ
Queensland cannot be a high spending and low taxing State. It needs to choose between two alternatives: - high taxing and high spending - lower taxing and lower spending	CCIQ favours the later due to the strong correlation between low business taxes and the ability to retain and attract business investment that in turn drives growth, employment and prosperity. Additionally not only does Queensland need to be lower taxing and lower spending but more productive in terms of its output from the public sector.
Either expenditure (both recurrent and capital) needs to be wound back or revenues need to be dramatically boosted, so that the accumulation of further debt is arrested. However, given the relatively narrow State tax base and the heavy reliance on Australian Government payments, there are limited prospects to boost revenue. It is likely therefore that a major part of the adjustment burden will need to be borne by the expenditure side of the budget. This is where much of the structural imbalance in the budget originated. In the Commission's view, the Queensland Government cannot continue to provide services to the same level or in the same way as at present. There is a need to: review the range of services which should be provided by government reprioritise and rationalise core service delivery functions evaluate whether there may be better ways of delivering some services. Evaluate whether there may be better ways of delivering some services.	CCIQ offers the State Government strong support to address the embedded structural deficit through reducing the expenditure side of the State Budget. Further information is contained on pages 15 and 16 of this submission.
Restoring Queensland to Financial Strength Commission recommends it be taken in two stages: 1. Stabilise the growth in debt and return the budget to a General Government fiscal surplus by 2014-15. 2. Reduce the accumulated Total Government debt to restore a AAA credit rating and provide a buffer to keep that credit rating by reducing the ratio of debt to revenue to 60% by 2017-18.	CCIQ supports a two stage process.

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The First Stage

To generate a General Government fiscal surplus in 2014-15, the government should aim for a $3 billion improvement in the bottom line (as against current estimates) over three years to 2014-15. This will stabilise the debt, and commence the process of debt reduction. It will not be sufficient to move Queensland into the trigger range for a credit upgrade.

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CCIQ unequivocally supports this goal.

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The Second Stage

After completing the first stage, to move into the trigger range for a credit upgrade,

Queensland would need to reduce its Total Government debt to revenue from around 130% to 105%. This would involve debt repayment of $6.5 billion.

In the Commission's view, merely doing this would still leave the State fragile and exposed to any external shock – the kind of shock that occurred in 2008 with international financial instability and in 2011 with natural disasters.

Therefore the Commission recommends that the State set a medium term target of a Total Government debt to revenue ratio of 60% – the position it was in as at 2007-08 – by 2017-18. This would involve reducing debt by $25-30 billion, a halving of the debt ratio. This cannot be done through revenue and expenditure measures alone. It will require careful utilisation of the balance sheet, in particular using the proceeds of asset sales to reduce debt.

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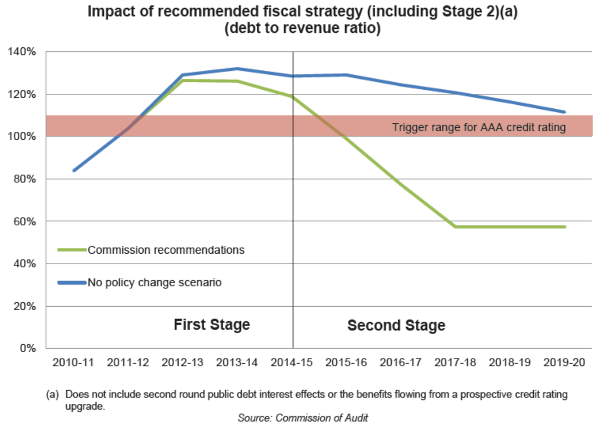
CCIQ does not support reducing the debt to revenue ratio to 60%. CCIQ believes this target to be too aggressive particularly if it gives rise to the erosion of Queensland's competitive tax environment and has more than needed short term negative impacts on economic activity.

CCIQ recognises that some degree of buffer is needed to withstand example shocks such as the GFC or the 2010-11 Natural Disasters however a better target would be between 75% and 85%.



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Other supporting elements of the recommended fiscal strategy are: sustainable service delivery; a competitive and sustainable tax environment; and full actuarial funding of future employee liabilities, especially superannuation and long service leave.

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CCIQ agrees with these supporting elements.

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6.3 Recommendations - New Fiscal Strategy and Targets

General Government fiscal surplus in 2014-15 to be achieved through a $3 billion process of fiscal repair over three years (the First Stage)	***CCIQ Support***
A Total Government debt reduction strategy of $25-30 billion to restore the debt to revenue ratio to 60% by 2017-18 (the Second Stage)	***Conditional Support based on debt to revenue ratio amended to 75%-85% by 2017-18***
Once the Second Stage has been completed, the Government set medium term targets of maintaining a zero fiscal balance in the General Government sector on average over the economic cycle, and of keeping Total Government debt levels constant to GSP.	***CCIQ Support***

6.4 Recommendations - Achieving New Fiscal Targets

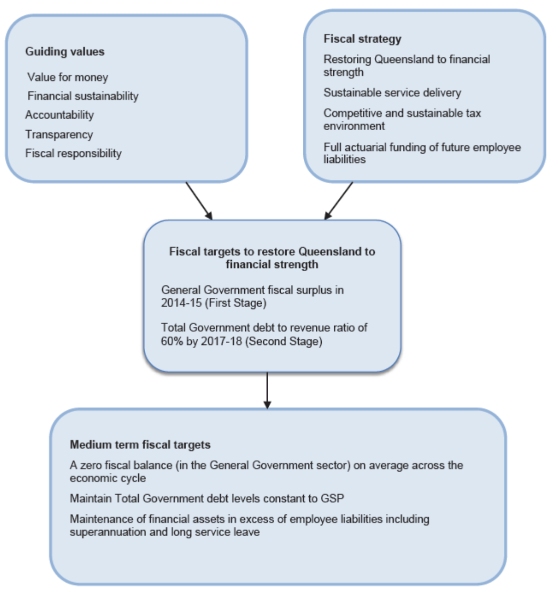
The Government retain the 3% cap on annual growth in employee expenses beyond 2015-16 and until the ratio of Total Government debt to revenue has declined to 60% under the Second Stage of the fiscal strategy.	***CCIQ Support but with amended debt to revenue ratio.***
The Government examine revenue options to share the burden of the fiscal repair task under the First Stage of the fiscal strategy. The Government should focus on its broad revenue bases in the first instance. Addressing concessions and distortions in existing taxes could also provide a revenue contribution to the fiscal challenge. The Government should also discuss with the Office of State Revenue any opportunities it has identified to improve greater taxpayer compliance through additional investment in investigation and debt recovery activities.	***Consultation Needed***
In addition to the 3% cap on employee expenses, the Government review all other aspects of General Government recurrent expenses to ensure baseline recurrent expenditure is consistent with government policy and is delivering optimum value for money.	***CCIQ Support***
The Government actively manage its forward program of capital expenditure to ensure expenditure is appropriately prioritised across the forward estimates and based on rigorous business case evaluation, including whole-of-life costs. The Government to consider what asset management strategies are required to ensure the efficient acquisition, maintenance and replacement of assets.	***CCIQ Support***
The Government examine its current holding of physical and commercial assets and implement measures to maximise the return on those assets for the benefit of the community.	***CCIQ Support***
The Government identify changes to the structure of revenues and expenses that will contribute to the debt reduction task under the Second Stage of the fiscal strategy. This includes exiting expenditure activities more appropriately supported by other levels of government. The Government should also examine medium term measures to manage demand for government services.	***Consultation Needed***
The Government ensure careful utilisation of its balance sheet, including utilising the proceeds of asset sales, to achieve the objectives of the Second Stage of the fiscal strategy.	***CCIQ Support***

6.5 Own Source Revenue

Commission of Audit	CCIQ
Queensland exercises below average effort in raising revenues from payroll tax, land tax, transfer duty and mining taxes. Queensland also raises less revenue per capita from gambling activities than other states.	Please see CCIQ comments provided on page 8.
The concentration of most own source revenue from a small number of revenue bases has significant implications for budget flexibility and, in particular, in assisting to reduce the fiscal deficit: - there are only a limited number of broad based revenue sources to draw upon to generate additional revenue - there is little capacity to generate additional revenue from one quarter of the own source	CCIQ believes that the best way to grow tax receipts is to grow economic activity. CCIQ has consistently stated that positive action by the State Government to improve or, in the current instance, maintain the competiveness of the business environment will ultimately safe guard its taxation receipts. For example carefully crafted business tax reductions ultimately do not reduce Government income as they generate significant improvement in economic activity further stimulating tax receipts. A

revenue base.	competitive business taxation regime does to some extent involve a leap of faith as in the short term there are possible revenue implications. There can be no doubt however that the best way to protect Government revenue is to generate private sector economic activity. CCIQ research overwhelmingly concludes that previous tax savings have been used by businesses to contribute to employment and the economy by investing in plant and equipment, employing more staff, and training of staff. Actions that all generate economic activity and further taxation receipts.

6.6 Fiscal Strategy and Targets

Commission of Audit	CCIQ
11.1 Financial and Performance Framework **Queensland Financial and Performance Framework**  *Source: Commission of Audit*	CCIQ supports the Commission of Audit's recommended Financial and Performance Framework subject to several amendments referred to in this submission.
11.3.4. Competitive and sustainable tax environment Governments face a continual challenge to provide the best quality services possible consistent with minimising the extent to which they have to tax their citizens to provide services. A competitive tax environment encourages businesses to establish and grow in Queensland, which in turn drives employment and economic growth. Keeping tax levels low is also a tangible way that the Government can help business and families cope with other cost pressures.	Building a strong business operating environment that allows local industries to compete is pivotal to the economic well-being of business and should be a key role for this State Government. Queensland's business operating environment embraces business taxes, fees and charges, energy costs, council rates etc. The "cost of doing business" issue is critical for all industry but is particularly relevant for those businesses which are not located in Queensland for natural resource reasons. Much of the manufacturing industry is in this category with Queensland being extremely vulnerable to the relocation of manufacturing capacity to larger, more viable plants closer to overseas markets. Cost issues at the margin can be critical in relocation decisions. Accordingly greater priority must be given to examining the cost of doing business in Queensland.

	For Queensland's general business environment to represent a sustainable competitive advantage, we must be better than all other States. Every region in Australia is in competition with each other to some extent in the area of investment attraction through competitive taxation regimes. Having a once competitive advantage is no reason to be complacent now. CCIQ is increasingly of the view that Queensland is unfortunately losing its low tax status. Queensland needs to have a business operating environment that is the most competitive of all States. Please see page 8 for further detail. *Source: Page 24 Big 3 for Business: Business Priorities for Queensland's State Government, February 2012*

6.7 Achieving the New Fiscal Targets

Commission of Audit	CCIQ
It is likely therefore that a major part of the adjustment burden will need to be borne by the expenditure side of the budget, particularly recurrent expenditure. This is where much of the structural imbalance in the budget originated. □□The Second Stage of the fiscal task will not be achieved through revenue and expenditure measures alone, although some longer term reform measures may assist. Reductions in debt of $25-30 billion between 2015-16 and 2017-18 will only be possible through careful utilisation of the balance sheet, including utilisation of the proceeds of asset sales.	CCIQ fully supports these statements and discusses asset privatisation in more detail on pages 15 and 16.

6.8 Measures to be considered under the first stage of the new Fiscal Strategy

Commission of Audit	CCIQ
12.3.1. Revenue The Government has limited revenue options to assist in the fiscal adjustment task: □□almost half of the Government's total revenue is sourced from Australian Government grants over which the state has limited control □□the Government has few broad based revenue bases from which to raise revenue □□the Government has a commitment to retain Queensland's competitive tax status compared with other states. However, the burden of the adjustment task should not fall entirely on recurrent expenses. A contribution from a limited number of broad based revenue measures would assist in sharing the burden of the adjustment task across the community and minimise the effects on interstate tax competitiveness.	CCIQ believes careful consultation needs to be provided in any assessment of increasing revenue through taxation initiatives.

12.3.1.1. Queensland budget deficit levy The Commission recommends that the Government consider a general contribution to the deficit reduction task from the broad section of the community who are owners of either residential or commercial property. A temporary deficit reduction levy applied to all rateable properties would raise approximately $200 million per annum for every $100 of levy.	CCIQ would support this initiative provided it is levied on all land owners.
12.3.1.2. Land tax An alternative would be to apply land tax to all parcels of land, with a general exemption for the principal place of residence.	CCIQ would support this initiative if the general exemption for principle place of residence was removed coupled together with a marginal downward adjustment to existing tax rates.
12.3.1.4. Mining royalties Justification for Queensland to increase its royalty rates to align with the revised rates in NSW. This would raise in the order of $100 million to $150 million per annum.	CCIQ would recommend a tax working party be established to examine this option as part of a Second Stage.
12.3.2.5. First Home Owner Grant Removal or restriction of the grant to purchases of new homes could be considered.	CCIQ would recommend a tax working party be established to examine this option as part of Second Stage.
12.3.3. Capital expenditure ***12.3.3.1. Prioritisation of capital expenditure*** Government needs to ensure that only the highest priority projects receive funding across the forward estimates period, consistent with a rigorous evaluation of business cases for all projects.	CCIQ agrees with this principle. CCIQ believes there are several principles that should underpin Queensland's infrastructure policy: Infrastructure decisions should always be underpinned by the twin processes of cost-benefit analysis and opportunity cost evaluation. Infrastructure projects chosen for development must be shown to contribute to Queensland's economic growth potential. Most importantly, the State Government must properly assess competing projects under consideration. There needs to be an open and transparent process for Government infrastructure investment. Borrowing to finance capital should only be undertaken for additions to capital stock, not for maintenance or replacements of existing assets; and should be repaid over a period no longer than the lifetime of the asset; and should be assessed on an appropriate rate of return. Whether future infrastructure remains mostly a public sector activity or becomes mainly private, governments will retain their crucial facilitation, planning and co-ordination roles in helping projects to happen.
12.3.4. Balance sheet management In addition to active management of new capital expenditure, the Government will also need to actively manage its balance sheet, to ensure that public assets are achieving an appropriate return for the community.	In respect to asset sales historically the business community has often supported the privatisation of State owned assets particularly given that the resultant impact is often superior service quality and lower prices. However CCIQ urges the State Government to ensure that the structural integrity of the budget is firstly addressed.

The Queensland Government does not have a consolidated list of all its property holdings.
Preparation of such a list is a matter of urgency so that the Government can determine:

- the size and location of its property holdings
- whether there is property that is surplus to requirement
- a strategy for maximising the use and return on its property holdings.

The Queensland Government continues to operate commercial business operations in direct competition with private businesses operating in open and competitive private markets. These government businesses are providing services principally to internal government clients, and there is no justification as to why these services cannot be sourced directly from commercial private operators.

Examples of these businesses include Q-Fleet, Q-Build, Goprint, CITEC and Queensland Shared Services. In the Australian Government and other states, many of these services are sourced directly from the private sector.

Queensland, as with other states, has contracted private sector managers to operate some government service delivery, such as corrective service facilities.

Other examples include private construction and operation of public housing assets Private sector management will not be appropriate in all instances (for example, in the more decentralised parts of the state). There is also a need for high level contract management skills within government.

An examination of experiences in other states – both positive and negative – may highlight further opportunities for greater private sector management of government assets and delivery of business services to government.

The Commission considers that the Government should review all commercial business units, with a view to determining the most cost effective forms of service delivery. Further analysis of these issues will be presented in the Commission's subsequent Reports.

Businesses indicate they support asset sales only with stringent conditions including adequate sale price, sufficient service levels and pricing safeguards.

What is abundantly clear is that when asked which option for balancing the budget business prefers, 84% favour finding savings within Government. Only 9% favour asset sales as a first step. These results overwhelmingly demonstrate that before any sale is actioned, the State Government must address operating expenditure and drive for efficiencies in procurement and broader Governance.

Businesses fear that if the State's assets are sold and the underlying high cost structure remains then eventually our credit rating will be further undermined. There is no point selling off assets if the proceeds are only sufficient to pay for two year's interest servicing bill.

CCIQ believes that if the expenditure of State Government is reigned in then asset sales will be supported particularly if the improved outcomes under private ownership are highlighted.

Decisions on whether to privatise an asset or to contract out should be determined according to which form of service delivery represents the best value for money for the community. There should be no ideological presumption either in favour of or against private provision. Sometimes the private sector is more efficient and effective at delivering services, sometimes the government is. These considerations should be the ones guiding whether or not infrastructure is privatised. Of central importance is the fact that the rate of spending necessary for continued infrastructure investment and development in Queensland will not be sustainable without using the Private Sector.

Accordingly Government should actively consider alternative financing mechanisms to free itself from direct investment in costly infrastructure through mechanisms such as Private Public Partnerships (PPPs), privatisation, contracting out and competitive tendering. By moving out of activities that the private sector can do better, government frees resources to provide the infrastructure that only it can supply. The private sector has the potential to deliver significant benefits including improved quality at lower cost. Greater private sector involvement will diversify and enlarge the pool of funds available to finance the construction and maintenance of infrastructure, enabling some projects to be brought forward and completed earlier than otherwise would have been the case. The utilisation of private sector participation in the provision of essential infrastructure will inevitably

	lead to an improvement in Queensland's building industry, investment growth and employment opportunities. For these reasons CCIQ has been very active in encouraging constructive debate on what role the private sector can play and in infrastructure provision and is actively encouraging Government to consider the benefits that the private sector can provide in the delivery of sustainable infrastructure.

6.9 Measures to be considered under the second stage of the Fiscal Strategy

Commission of Audit	CCIQ
12.4.1. Revenue Payroll tax is one the Government's broadest tax bases and if applied broadly is an efficient way to raise revenue. There is debate as to the economic incidence of payroll tax between employers, employees and consumers. The generally accepted view, as outlined in the *Australia's Future Tax System Review*, is that the incidence of payroll tax is likely to fall on labour, through either lower wages or higher prices. The desire of state governments to maintain competitive tax systems has led over time to both a narrowing of the payroll tax base, primarily through exemption thresholds. As outlined in Section 5, Queensland's payroll tax effort is below that of the average of the other states. The Commission does not make any recommendations in relation to the base or rate of payroll tax other than to suggest the Government closely monitor developments in other states with a view to maintaining both a competitive and robust revenue base.	**CCIQ steadfastly opposes any consideration of payroll tax or any other business tax being increased in the future.** The statement that the desire of state governments to maintain competitive tax systems has led over time to both a narrowing of the payroll tax base, primarily through exemption thresholds is factually incorrect. The benefit of any increase in payroll tax exemption threshold in recent years has more than been offset by a progressive widening of the dentition of wages and salaries in which the payroll tax rate is applied to. This in conjunction with growth in wages and employment levels accounts for the 190.5% increase in payroll tax receipts across the past decade. Analysis of payroll tax revenue raising effort clearly demonstrates that Queensland's competitiveness has progressively been eroded in recent years.

7.0 Red Tape

7.1 CCIQ is strongly committed to reducing business red tape and applauds the State Government on its commitment to reduce this burden by 20 per cent. Given the focus of this current government on improved fiscal and economic management and reducing recurrent government spending, CCIQ firmly believes that regulatory reform has a central role in the budgetary process.

Cost to Business

7.2 The compliance cost debate tends to focus on the paperwork (number of pages of forms, applications and reports) required to comply with regulations. This is important but is not the only or indeed the most significant cost in many cases. Also important is the time it takes to keep up-to-date with new laws and changes in existing laws, training staff in new legal requirements, and putting in place procedures to ensure compliance. There is evidence that some small businesses find these costs so onerous that they do not attempt to keep up-to-date with all but the most obvious requirements.

7.3 The indirect costs of regulating are also important. Indirect costs arise when regulation is so stifling that firms are constrained from developing new products or processes, entering new markets or establishing new businesses. The indirect costs of regulation can be much higher than the direct costs and has the perverse outcome of disincentivising business expansion and inhibiting employment.

7.4 The negative effects of unnecessary and excessive regulation are well-documented. Red tape and regulatory burdens impede competition, innovation and productivity, and therefore aggregate output, income and employment. CCIQ has estimated that regulation costs the Australian economy approximately $86 billion per year or 10.2 per cent of GDP. The annual cost to the business community of State Government regulation within Queensland has been estimated at over $7 billion.

7.5 Reducing red tape by 20 per cent would reduce the compliance cost for Queensland small business by $1.4 billion per year to $5.6 billion. Indirectly this represents a potential for reinvestment in business growth, employment and productivity for Queensland's economy that ultimately benefits tax receipts.

Cost to Government

7.6 On top of the hidden costs passed on to businesses, Government itself must spend significant amounts of taxpayer money, paid by business, administering and supervising these regulations. The business cost for the Commonwealth Government to administer business regulation alone has been estimated at approximately $5 billion a year of taxpayer funds. In addition there is the cost accrued from resourcing the regulatory agencies. The Productivity Commission has assessed Federal Government agencies with explicit regulatory functions to employ around 30,000 staff.

7.7 International research also demonstrates the significant cost of regulation to the public sector:

- A World Bank study conducted in 2005 concluded that Sweden, UK, Norway, Belgium and the Netherlands spend 8-11 per cent of total government spending to administer business regulations.
- The Federal Government and provincial, territorial and local governments in Canada spent $5.2 billion administering their regulatory activities.
- UK Research concluded that government regulatory enforcement activities cost the taxpayer around 0.5 per cent of GDP per annum.

7.8 The World Bank affirms that simplifying regulation helps businesses and governments alike. Easing regulatory burdens would allow businesses to expand faster and generate revenue that governments could use to enhance public services. Research generally indicates that countries with burdensome and unnecessary regulation have larger informal sectors, higher unemployment rates and slower economic growth and development, all of which add to Government costs for services and reduce Government revenue and ultimately detract from the total number of employed that could otherwise by achieved.

7.9 CCIQ has estimated that the cost for the Queensland Government to administer regulation, based on the 2010-11 annual budget of those agency offices with explicit regulatory functions, to be over $900 million.

7.10 Reducing red tape by net 20 per cent has the potential to generate budget savings of $180 million per annum which could be reinvested in business programs and initiatives targeted at growing the Queensland economy, increasing output and productivity, and indirectly contributing to government revenue streams.

7.11 However CCIQ cautions that the full economic benefit will not be realised if regulatory reform measures result in cost shifting away from State Government administration and place greater risk management and compliance obligations on the business community which has unfortunately been the unintended outcome for many of the "achievements" reported in previous Queensland Government 'Red Tape Reduction Stocktake' reports.

7.12 Accordingly CCIQ continues to advocate the need for a baseline audit or stocktake of existing regulation and compliance cost to complement the State Government's 20 per cent reduction target. This will ensure reform efforts are targeted to high cost areas and deliver maximum returns for business and regulators alike.

<u>Additional small business initiatives</u>

7.13 CCIQ supports a three tiered approach to reducing the cost and burden of red tape for Queensland small and medium businesses. This approach concurrently aims to reduce the existing stock of regulation, stems the flow of new regulation and improves the compliance efficiency of remaining and/or essential regulation.

7.14 CCIQ acknowledges the State Governments regulatory reform framework has made significant commitments towards reducing the existing stock of regulation and stemming the flow of new regulation, however CCIQ believes more can be done to achieve regulatory efficiency and simplification benefits for small and medium businesses

7.15 A significant amount of time, resources and money is spent by small business owners finding information, understanding compliance obligations and seeking advice, in addition to actually undertaking compliance requirements. Regulatory compliance is often considered so complex that small businesses believe that the only way for them to reduce the risk of non-compliance is to pay for external advice or engage consultants and experts. Accordingly the indirect administrative and information aspects of regulation are often more burdensome and costly than the direct compliance activities and cost of fees, licences and permits.

7.15 There is a significant opportunity for the Queensland Government (ideally perhaps Department of Tourism, Events and Small Business or alternatively the Office for Best Practice Regulation) to deliver significant reductions in the cumulative burden and cost of red tape for small business through the streamlining and simplification of regulatory compliance including through the following initiatives:

- Supporting small and medium businesses with timely and targeted information about regulatory compliance and changes to regulation (including reductions and/or repealed requirements as the deregulation agenda progresses).
- Reviewing existing online resources and publications. This would include improving the language and way that the Queensland Government communicates with small and medium businesses to increase understanding and reduce the complexity of compliance.
- Developing tools to aid small and medium businesses in the process of compliance. For example, the use of online tools to schedule and track compliance requirements, templates and reporting tools to reduce the time of compliance, and development of tools and standardised conditions for voluntary self-regulation.
- Provision of training and accreditation services to allow business owners to complete their own audits and or/compliance management to reduce the cost of external consultants and allow businesses to schedule compliance at times most suitable to their circumstances.
- Undertake a review of the frequency of compliance, renewals and reporting to determine if small business with low regulatory risk and/or history of good compliance can shift to alternative models of reduced frequency and reporting by exception.

7.16 CCIQ is committed to working with the Queensland Government in partnership to highlight the impact of red tape and help identify opportunities for reform. To this end CCIQ avails itself to assist each State Government Department to reduce their portfolio's regulatory burden by identifying regulatory hot spots and actioning specific feedback and case study examples of priority areas.

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