

The Research Director
Finance and Administration Committee
Parliament House
George Street
Brisbane Qld 4000
fac@parliament.qld.gov.au

Dear Research Director

The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide input to the Finance and Administration Committee's Inquiry into the *Queensland Productivity Commission Bill 2015*.

More specifically CCIQ wishes to provide commentary into the Committee's consideration of the establishment of a Queensland Productivity Commission as an independent economic advisory body, with the broad aims of lifting productivity, improving living standards and driving economic growth. CCIQ notes the following objectives of the Commission in particular:

- generally facilitate, encourage and promote productivity in Queensland;
- hold public inquiries about matters relating to productivity, economic development and industry in Queensland, as directed by the Minister;
- advise the Minister about matters relating to productivity, economic development and industry in Queensland; and
- undertake the State's regulatory advice and guidance and competitive neutrality functions.

Queensland Productivity

CCIQ believes the vibrancy of the small business community will be a key determinant of our State's future productivity performance.

To this end, CCIQ earlier this year released *Enhancing Queensland's Productivity 2015* which sets out a broad agenda for new and continuing reforms that address the challenges of Queensland's small businesses. A copy of this report is enclosed for the Committee's consideration.

As part of the Report CCIQ surveyed Queensland businesses about their views on productivity and about the productivity performance of their business. Our research shows that Queensland businesses continue to seek out ways to improve the efficiency of their own operations, but these actions have been driven by a need for survival rather than for business growth.

At the same time small businesses indicated that efforts at a macro level to boost Australian and Queensland productivity have largely stalled. For this very reason CCIQ supports the establishment of the Queensland Productivity Commission.

Queensland's and Australia's productivity performance is unmistakably stagnating, which is a concern because productivity growth is the most important source of long-term economic prosperity.

Improved productivity performance is essential to safeguard our future living standards and help us cope with the structural and cyclical adjustments in the economy and the impact of an ageing population.

Despite greater awareness of the need to improve productivity, policy action is at a standstill. CCIQ believes it is time to get serious about productivity growth with a refreshed commitment to holistic reform at both a State and National level that will drive meaningful progress.

Actions at a firm level alone will not be enough to achieve substantial and widespread productivity growth across the entire Queensland economy. We need an integrated pro-productivity reform agenda that will be embraced by businesses, industry, all levels of government and individuals. The reform agenda must proceed across all three channels of policy influence – flexibility, capabilities and incentives.

To support a flexible business operating environment, policies must reduce regulatory costs, enable workplace decisions to allocate resources to their most efficient use and allow businesses to respond to emerging opportunities.

Policies also need to improve business capabilities through workforce skills development, targeting infrastructure investment as well as making better use of existing infrastructure, and encouraging increasing levels of innovative activity. In addition, the State and Federal Government must take a leadership role with incentive policies that focus on taxation and competition as economy-wide enablers of productivity growth.

CCIQ's hope that whilst the current inquiries of the Queensland Productivity Commission currently focus on energy related matters, inevitably their focus will turn to the above issues as well. The Chamber believes persistent actioning of these additional policy priorities will have the greatest impact on improving Queensland's productivity performance.

To assist in the Committee's consideration of this Bill, I have attached as an appendix the most relevant section of our Report as it interrelates with the *Queensland Productivity Commission Bill 2015*.

State's Regulatory Advice - OBPR

CCIQ notes that the Office of Best Practice Regulation now comes in under the Queensland Productivity Commission and that their main focus will be carriage of the Regulatory Impact Statement system. CCIQ supports this function but believes OBPR must continue to measure the cumulative burden of red tape on small business.

CCIQ is committed to addressing the significant regulatory burden facing Queensland small businesses that is stifling their capacity to grow and employ. CCIQ has for a number of years been dedicated to addressing this significant issue and working with all levels of government to not only highlight the impact that red tape has on business but to also identify opportunities for reform.

Our considerable work in this area reveals that a regulatory reform agenda can only be successful if it tackles the cumulative regulatory burden and has a baseline measure. To this end CCIQ's longstanding and current approach to tackle red tape includes the following elements:

- Establishing high level political leadership and commitment to a state regulatory reform agenda;

- Measuring the regulatory burden and establishing a baseline of existing 'regulatory requirements';
- Imposing constraints on regulators through binding targets to reduce the existing stock and restrict the future growth of regulation; and
- Publicly reporting regulatory reform measures and progress against the target on a regular and ongoing basis to achieve Ministerial and government accountability.

The Chamber believes it is the above process that defines and differentiates a meaningful red tape reduction agenda from other previously unsuccessful attempts to tackle this burden.

CCIQ has had a strong working relationship with the Office of Best Practice Regulation where we worked collaboratively in 2013 on their framework for reducing regulatory burden. This included the establishment of the baseline measure that identified 265,000 regulatory requirements and just over 72,000 pages of legislation across the Queensland Government.

CCIQ strongly supports the approach to measure the existing burden of red tape and set a reduction target. This methodology is based on CCIQ's 2009 Blueprint for Fighting Queensland's Over-Regulation and the widely acclaimed British Columbia approach.

The Chamber has consistently held the belief that State Government Departments are the gatekeepers to their portfolio's regulatory burden and that they are best placed to identify what regulations are truly needed. Quite simply from a baseline measure we are able to set targets for the Departments to achieve with accountability and transparency in their progress.

CCIQ believes the regulatory requirement baseline measure remains 'the' most valuable indicator of red tape reduction and any role for OBPR under the Commission must include this measurement process. In our view the baseline measure represents a massive and defining opportunity for Queensland to stand out in Australia on how to tackle red tape.

Competitive Neutrality

CCIQ strongly endorses the National Competition Policy principle that a Government agency carrying on a significant business activity should meet the same requirements as their private sector competitors in regard to debt guarantee fees, tax equivalents, and procedural and regulatory requirements.

In our view the Commission must be able to investigate a competitive neutrality complaint where a government agency allegedly enjoys an advantage over its competitors solely because it is not required to pay debt guarantee fees, or where it is not subject to tax equivalent regimes, or where it enjoys procedural and regulatory advantages.

However CCIQ wishes to recommend to the Committee that the Commission as part of this Bill be provided with enforcement powers where it finds competitive neutrality to have been compromised. CCIQ wishes to raise the Sunshine Coast Regional Council (SCRC) / Waste Recycling Industry Association Queensland (WRIQ) case study provided in Appendix Two as an example whereby the Commission must be given an enforcement mechanism.

In brief the QCA ruled that the SCRC was breaking competitive neutrality principles and invited the Council by resolution to implement the QCA's findings. The SCRC subsequently refused to action this request and the waste industry to this day remains at a competitive disadvantage with a key NCP principle paid scant regard. This case study highlights that enforcement powers are essential in policing competitive neutrality particularly with Queensland local government.

Closing

In closing CCIQ looks forward to working with the Queensland Productivity Commission on enhancing our State's productivity. CCIQ believes that consultation with industry and small business in particular will be a crucial requirement for their success and to this end the Chamber is pleased to advise that we have already been invited to join the Commission's Stakeholder Reference Group for their forthcoming Electricity Pricing Inquiry.

I would welcome the opportunity to appear before the Committee to provide further light on productivity in Queensland small businesses, red tape reduction strategies, competitive neutrality and the attached appendices and report.

Yours sincerely

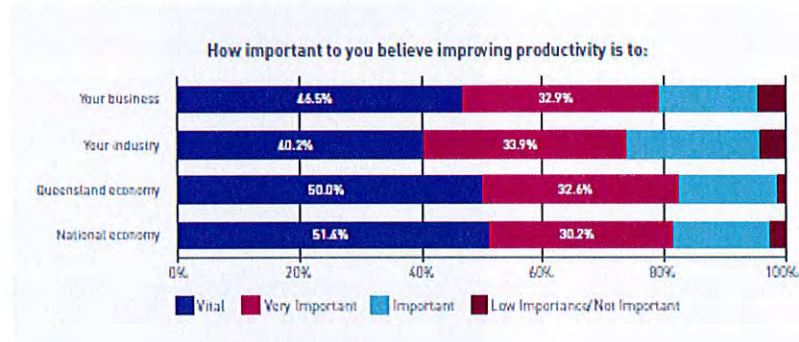


Nick Behrens
Director - Advocacy

QUEENSLAND BUSINESS AND PRODUCTIVITY

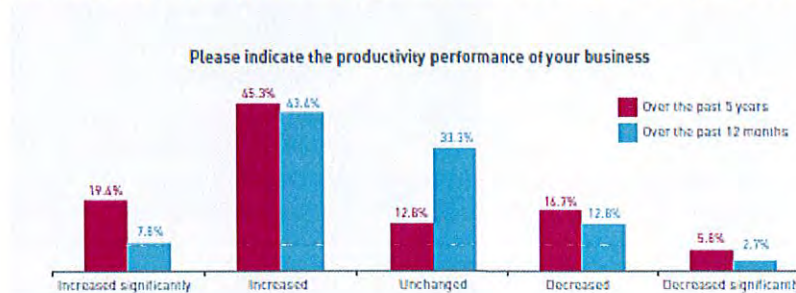
BUSINESSES BELIEVE PRODUCTIVITY AT A FIRM LEVEL IS IMPORTANT BUT EVEN MORE IMPORTANT FOR THE OVERALL ECONOMY

As part of the Westpac Group CCIQ Pulse Survey, Queensland businesses were asked for their views on productivity and about the productivity performance of their business. The majority of Queensland businesses (almost 80 per cent) believe productivity to be vital or very important to their individual business and the industry sector in which they operate (around 74 per cent). Curiously, there is even more emphasis placed on the importance of productivity for the Queensland and Australian economies. These results confirm the need for productivity improving initiatives at the business enterprise level, industry level and also for the economy overall.



Source: Westpac Group CCIQ Pulse Survey of Business Conditions

While there has been a decline in national and Queensland's productivity growth, businesses individually have attempted to improve operational productivity. The majority (64 per cent) of businesses surveyed indicated they had achieved an increase in productivity over the past five years. However, recent performance has been more subdued with one third of businesses indicating that productivity within their business remained unchanged over the past 12 months.



Source: Westpac Group CCIQ Pulse Survey of Business Conditions

**BUSINESS
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RATHER THAN FOR
GROWTH**

The impact of the GFC and difficult business operating environment has driven firm level productivity initiatives. With flat sales and revenue growth and increased business operating costs, businesses have had to do more with the same or the same with less.

Businesses have undertaken a number of initiatives to improve productivity at a business enterprise level (Figure 8). The most common strategies involved adoption of new technologies, systems or processes. At the same time businesses made better use of existing staff through new training, up-skilling and reorganisation of staff shifts. One business implemented a profit sharing scheme to motivate employees, which cost the business 2 per cent of profits but yielded a 12 per cent increase in productivity. However, there continues to be lower levels of direct investment and participation in research and development projects.

Improvements in productivity at the business level have been driven by a need for survival rather than for business growth. Consistent feedback from Queensland businesses is that implementation of process improvements has been a reactive response to difficult operating conditions. The existence of improved productivity in the small business sector but declining productivity in Queensland's economy overall, reflects the accumulation of regulation and associated compliance costs which is eroding the benefits of business investment in productivity.

FIGURE 8: ACTIVITIES UNDERTAKEN BY BUSINESSES IN THE PAST FIVE YEARS TO IMPROVE PRODUCTIVITY



Source: Westpac Group CCIO Pulse Survey of Business Conditions

Businesses identified a number of factors that impacted their productivity growth. The top five barriers all relate to business operating costs. This includes direct and indirect labour costs, costs of electricity and water, costs of complying with regulations and other high costs of running a business.



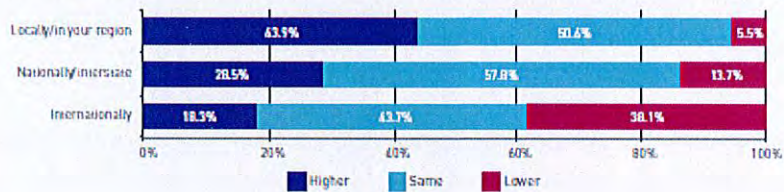
Source: Westpac Group CCIO Pulse Survey of Business Conditions

MOST QUEENSLAND BUSINESSES BELIEVE THEIR PRODUCTIVITY IS COMPARABLE TO LOCAL AND REGIONAL COMPETITORS

Businesses also noted that skills shortages and the availability of appropriately skilled workers inhibited their ability to capitalise on productivity opportunities, especially in those regions where small local businesses are competing with the mining sector. The industrial relations system and employment conditions also limit the flexibility afforded to employers to implement innovation and capitalise on innovative business opportunities. Finance and funding constraints, including a lack of investment incentives further constrained the ability of businesses to invest in productivity growth and innovation.

Not surprisingly, many businesses commented that there was a lack of government support for small businesses who continue to face mounting pressure from international competitors and cheap imported goods. A significant proportion (38 per cent) of businesses believed that productivity within their business was lower than productivity within similar businesses overseas. However, business believed they were more productive in domestic markets. The majority (94.5 per cent) of businesses rate their comparative productivity as being higher or the same as local and regional competitors.

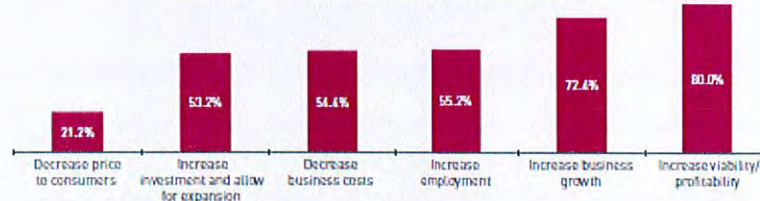
How do you think productivity in your business compares to productivity with similar businesses located:



Source: Westpac Group CCIO Pulse Survey of Business Conditions

Businesses firmly believe that enhancing productivity and business competitiveness will help them realise increased profitability and viability, allowing them to grow their business and accordingly employ more people.

What affect would increasing productivity have on your business?

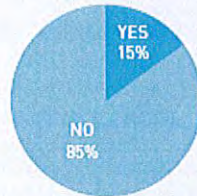


Source: Westpac Group CCIO Pulse Survey of Business Conditions

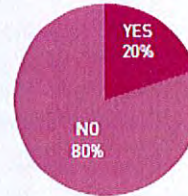
When asked about the policies of State and Federal governments over the past five years, the majority of businesses believed these to be ineffective in raising productivity. In particular, businesses attribute the high regulatory compliance costs and workplace relations policies of previous governments as a drain on productivity. While the Queensland Government's productivity initiatives were viewed slightly more favourably than Federal policies, there is still plenty of room for improvement.

BUSINESSES ARE DOING THEIR BIT TO IMPROVE PRODUCTIVITY BUT GOVERNMENT IS NOT DOING ENOUGH TO BOOST PRODUCTIVITY AT A MACRO LEVEL

Do you believe **Federal Government** policies have been effective in raising productivity?



Do you believe **State Government** policies have been effective in raising productivity?

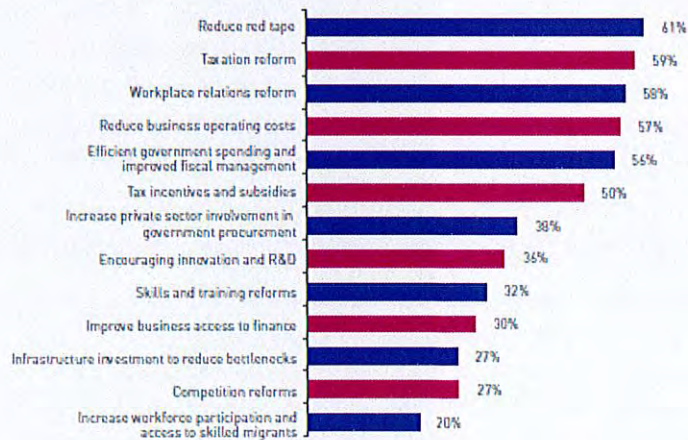


Source: Westpac Group CCIQ Pulse Survey of Business Conditions

Over 94 per cent of businesses support the need for a reinvigorated productivity reform agenda. Businesses also suggest that there is significant room for the Queensland government to take a leadership role to improve the productivity of essential service delivery, which in turn would drive productivity growth across the broader economy.

The top three priority areas nominated by businesses for government to improve productivity were reducing red tape, taxation reform, and workplace relations reform. Other policy priorities included the need to reduce business operating costs and efficient spending by all levels of government. Businesses also identified a role for government in supporting increased collaboration across industry sectors to find business-relevant solutions that would boost productivity.

What areas do you believe the State and Federal Government should target to deliver the greatest improvements in productivity?



Source: Westpac Group CCIQ Pulse Survey of Business Conditions

PRODUCTIVITY REFORM PRIORITIES

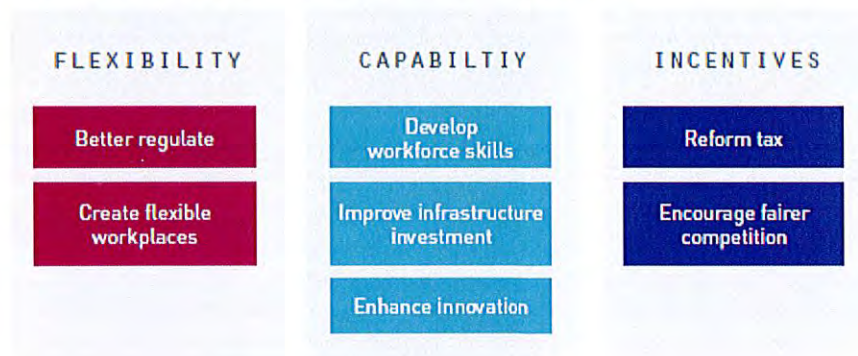
Despite greater awareness of the need to improve productivity, policy action is at a standstill. There have been some positive signs in recent years with many businesses reporting that they are taking action to improve the efficiency of their own operations. However, actions at the firm level will not be enough to achieve the substantial and widespread productivity increases required for Australia's and Queensland's future living standards.

SO WHAT NEEDS TO BE DONE AT A MACRO-LEVEL TO IMPROVE QUEENSLAND'S PRODUCTIVITY?

We need an integrated pro-productivity reform agenda that will be embraced by businesses, industry, all levels of government and individuals. There is no single policy solution. Instead, the reform agenda needs to proceed across a range of policy areas. Government policies can influence productivity performance through three channels – flexibility, capabilities and incentives.¹ CCIQ has identified seven policy priorities across all three channels of policy influence (see Diagram 1). Persistent action of these policy priorities will have the greatest impact on productivity growth.

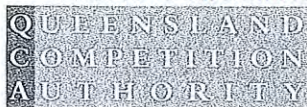
The business operating environment must be sufficiently flexible to promote productivity. Policies must reduce the costs of doing business, enable workplace decisions to allocate resources to their most efficient use and allow businesses to respond to emerging opportunities. Policies also need to improve business capabilities through skills development in order to maximise returns on productivity enhancing investments. Businesses need to be financially capable to invest and make productive changes to their operations as well as have capable infrastructure to get products to market. In addition, the State and Federal Government must take a leadership role to establish incentive policies that encourage economy-wide performance improvements through taxation and competitive markets.

DIAGRAM 1: SEVEN POLICY PRIORITIES TO IMPROVE PRODUCTIVITY



The seven policy priorities are interdependent and require a practical approach to implementation. CCIQ recommends establishing a timeframe for implementation that clearly identifies actions for the short-term (1-2 years), medium term (3-5 years) and longer term (6-10 years). This approach is set out in the following sections.

Waste Collection App A Investigation



Our Ref: Dan Kelley
Direct Line: (07) 3222 0516
File Ref: 451321

29 June 2012

Mr John Knaggs
Chief Executive Officer
Sunshine Coast Regional Council
Locked Bag 72
Sunshine Coast Mail Centre QLD 4560

Dear Mr Knaggs

Referral of Competitive Neutrality Complaint

The Authority has completed its investigation into the competitive neutrality complaint by the Waste Contractors and Recyclers Association of Queensland against Council's Waste and Resources Management business.

The Authority found that SCRC's Waste and Resources Management business has a competitive advantage over potential competitors as a result of its local government ownership and that this advantage should be removed. A copy of the Authority's Report and recommendations is attached.

A copy of the Recommendations in the Report is being provided to the Waste Contractors and Recyclers Association. The Authority is also providing a copy of the Report to the Department of Environment and Heritage Protection, Department of Justice and Attorney General, Department of Local Government, and Department of Treasury and Trade.

The Authority plans to publish a Notice on its web site that the investigation has been completed and that a copy of the report has been provided to SCRC.

The *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010* (Regulation) provides that the Council must make a copy of the report available for public inspection as soon as practicable.

The Regulation also provides that the Council must decide, by resolution, whether to implement the recommendations in the Report, and state the reasons for its decision, within one month after receiving the Report or, if Council does not ordinarily meet within that month—at the first meeting of Council after that month. Council must give notice of the resolution to the WCRAQ and the Authority within seven days after making the resolution.

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Waste Collection App A Investigation

Any further queries relating to this matter can be directed to Mr Daniel Kelley on 07 3222 0516 or by email: dan.kelley@qca.org.au.

Yours sincerely



EJ Hall
Chief Executive