FUTURES SERIES

ENHANCING QUEENSLAND'S PRODUCTIVITY

2014-15

Chamber of Commerce & Industry Queensland

CCIQ Powering business potential

FUTURES SERIES

EXECUTIVE SUMMARY

Queensland's and Australia's productivity performance is stagnating, which is a concern because productivity growth is the most important source of long term economic prosperity. Productivity growth occurs when the economy produces more using the same amount of inputs, which leads to higher incomes, rising employment and improved living standards.

So far, the effects of a productivity slowdown have been disguised by our favourable terms of trade that has resulted in increased purchasing power and higher national income. However, this trend cannot continue and a correction in our terms of trade is inevitable. Improved productivity performance is essential to safeguard our future living standards and help us cope with the structural and cyclical adjustments in the economy, the impact of our changing natural environment and 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 that will drive meaningful progress.

While Queensland businesses continue to seek out ways to improve the efficiency of their operations, these actions have been driven by a need for survival rather than for business growth. The benefits of productivity initiatives at a firm level continue to be eroded by the challenging business operating environment. For this reason, 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.

The table opposite sets out the seven priority areas for policy action with indicative timeframes to give momentum to the productivity reform agenda. CCIQ believes persistent actioning of these policy priorities will have the greatest impact on improving productivity performance.

"NON-EVIDENCE BASED POLICIES ARE DECREASING PRODUCTIVITY. WE NEED VISIONARY LEADERSHIP, STRATEGIES AND PLANS TO GET LARGE SCALE ADOPTION OF PRODUCTIVITY TOOLS AND CLARITY ON WHAT IS IMPORTANT TO FOCUS ON" – SURVEY RESPONDENT, BRISBANE

	POLICY PRIORITIES	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONGER TERM 6-10 YEARS
FLEXIBILITY	**Regulate better**			
	Prioritise red tape reduction that delivers highest productivity gain	■		
	Reduce compliance costs	■		
	Improve regulator engagement with small business		■	
	Improve Regulatory Impact Statement process		■	
	Establish zero net growth policy for regulation			■
	Create flexible workplaces			
	Link minimum wage setting to productivity	■		
	Greater use of flexible arrangements	■		
	Restore merit based unfair dismissal processes	■		
	Practical approach to penalty rates		■	
	Refocus enterprise bargaining on workplace productivity			■
CAPABILITY	**Develop workforce skills**			
	Encourage skilled labour mobility	■		
	Increase workforce participation		■	
	Develop business relevant vocational education and training system		■	
	Improve quality of education outcomes			■
	Establish a workforce skills planning culture			■
	Improve infrastructure investment			
	Develop Queensland Infrastructure Plan	■		
	Fast track approvals for priority infrastructure		■	
	Greater private sector involvement in infrastructure		■	
	Adopt user pays pricing mechanisms			■
	Enhance innovation			
	Improve small business innovation capability	■		
	Facilitate small business access to finance		■	
	Consolidate government programs targeting innovation		■	
	Facilitate collaboration with international innovators		■	
	Government to be innovation leader			■
INCENTIVES	**Reform taxation**			
	Raise threshold for payroll tax exemption	■		
	Reduce company tax rate	■		
	Simplify tax reporting	■		
	Broaden scope of GST		■	
	Correct Federal-State fiscal relationship		■	
	Lower personal income and capital income tax			■
	Encourage fairer competition			
	Investigate benefits of privatising State owned assets	■		
	Review existing legislation that restricts competition		■	
	Introduce national productivity payments scheme		■	
	Improve productivity of government agencies			■

PRODUCTIVITY IS THE KEY TO LONG TERM PROSPERITY

Productivity is essentially a measure of how much we get from a unit of input, and thus is a measure of efficiency.[1] Improvements in productivity occur when we make better use of limited resources in the production of goods and services. In other words, producing more with the same amount of inputs or producing the same output with less.

DEFINING PRODUCTIVITY

Labour productivity measures the output produced per unit of labour (expressed as hours worked) whereas multifactor productivity includes the input of both labour and capital. Multifactor productivity is more comprehensive and accordingly favoured, as it measures how effectively labour and capital combine, which is a reflection of other variables such as managerial practices, technical progress, better resource allocation, and knowledge and expertise.

Over the past four decades, around one-third of the growth in market sector output was due to multifactor productivity growth – that is, to Australian businesses generating more output per unit of inputs.

Productivity performance is a key source of long- term economic growth and higher per capita income growth, which in turn are crucial determinants of living standards and wellbeing. A higher rate of productivity growth means more value is added in production and this means that more income is available to be distributed, with the potential benefits of productivity shared by everyone.

BENEFITS OF PRODUCTIVITY ARE SHARED BY EVERYONE

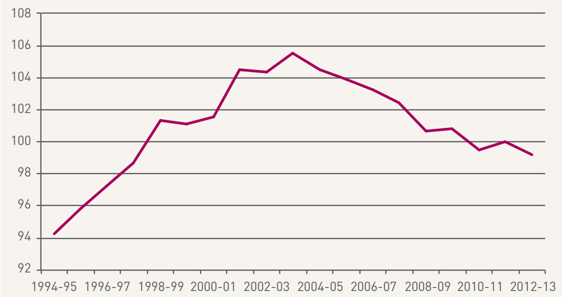
To sustain higher productivity growth into the future, efforts must continue at an enterprise level to improve efficiencies but this needs to be combined with an ambitious policy agenda to facilitate productivity improvements in the economy overall.

TRENDS IN PRODUCTIVITY PERFORMANCE

AUSTRALIA'S MULTIFACTOR PRODUCTIVITY PERFORMANCE IS WORSE THAN MOST OTHER DEVELOPED ECONOMIES

Since 2003-04, Australia's multifactor productivity has recorded negative growth in most years. The decline in multifactor productivity during the most recent decade lies in contrast to the decade before when productivity in Australia generally increased. During the late-1990s and early-2000s, multifactor productivity generally grew year-on-year until it reached its peak in the 2003-04 financial year (see Figure 1). While the slowdown in multifactor productivity growth is common to many countries, Australia's performance has lagged other developed economies in recent years.

FIGURE 1: AUSTRALIA'S MULTIFACTOR PRODUCTIVITY GROWTH



Multifactor productivity growth in selected countries (%)

	1997-2006 (average)	2007-2011 (average)	2012	2013
Japan	0.2	0.0	1.1	0.7
South Korea	2.0	2.7	0.2	0.4
United States	0.8	0.1	0.7	0.4
Sweden	1.6	-0.7	-0.3	0.2
Ireland	1.4	-1.0	-0.7	0.1
Singapore	1.5	-0.1	-3.4	0.0
China	2.8	3.1	0.6	0.0
UK	0.6	-0.9	-2.0	-0.1
Finland	1.7	-1.1	-2.3	-0.4
Germany	1.0	0.1	-0.3	-0.5
Canada	0.2	-0.9	-1.0	-1.1
India	1.6	2.7	-0.4	-1.2
New Zealand	0.1	-0.8	2.4	-1.2
Australia	0.2	-1.2	-1.3	-1.3

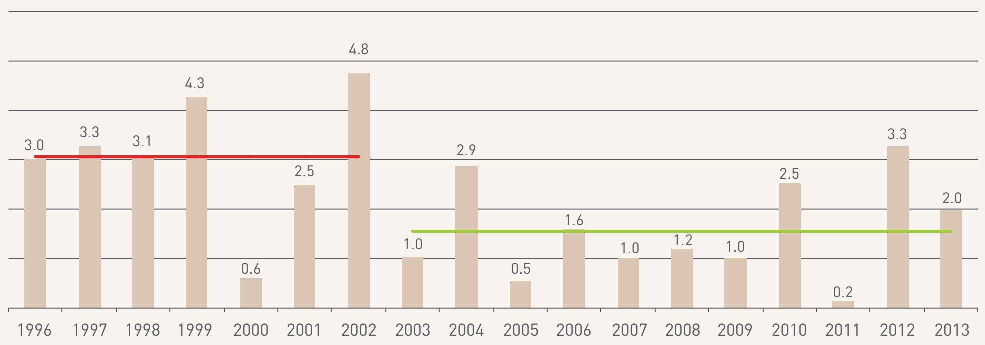
Source: ABS 5260.0 December 2013

Source: The Conference Board Total Economy Database

Australia's labour productivity growth has slowed down substantially since the late 1990s. Labour productivity grew at an average annual rate of 1.6 per cent in the ten years to June 2013 compared to 3.1 per cent in the seven years to June 2002.

AUSTRALIA'S LABOUR PRODUCTIVITY GROWTH HAS ALSO BEEN POOR BY INTERNATIONAL STANDARDS

FIGURE 2 AUSTRALIA'S LABOUR PRODUCTIVITY (PERCENTAGE CHANGE YEAR TO JUNE)



Source: ABS 5260.0 December 2013

FIGURE 3 INTERNATIONAL COMPARISON OF AUSTRALIA'S LABOUR PRODUCTIVITY

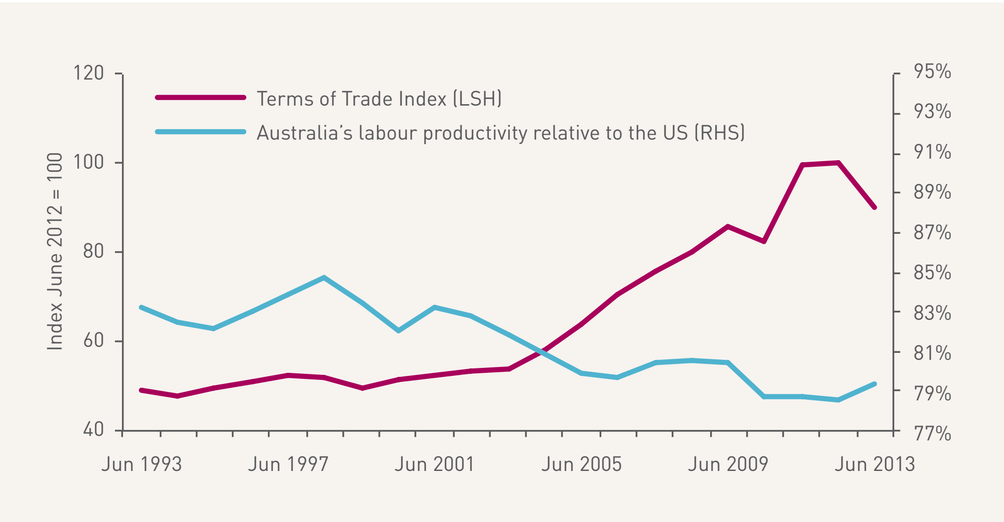
Labour productivity growth (GDP per hour, annual average per cent) in sected countries and regions	1997-2006	2007-2012
South Korea	4.8	4.4
Taiwan	4.2	2.4
Hong Kong	2.6	2.0
New Zealand	1.5	1.3
United States	2.2	1.2
Japan	1.7	0.9
EU-27	2.0	0.7
Australia	**1.9**	**0.7**
Canada	1.70	0.50

Source: The Conference Board Total Economy Database

GROWTH IN NATIONAL INCOME HAS COMPENSATED FOR DECLINING PRODUCTIVITY

The slowdown in Australia's productivity growth has been largely compensated for by the high terms of trade, which allowed real incomes to grow faster than productivity (see Figure 4). At the same time, real GDP growth has become increasingly reliant on population growth and rising workforce participation.[3] With a correction in the terms of trade inevitable and a declining share of working-age population, productivity is the key to meeting expectations for high living standards.

FIGURE 4 AUSTRALIA'S TERMS OF TRADE AND LABOUR PRODUCTIVITY

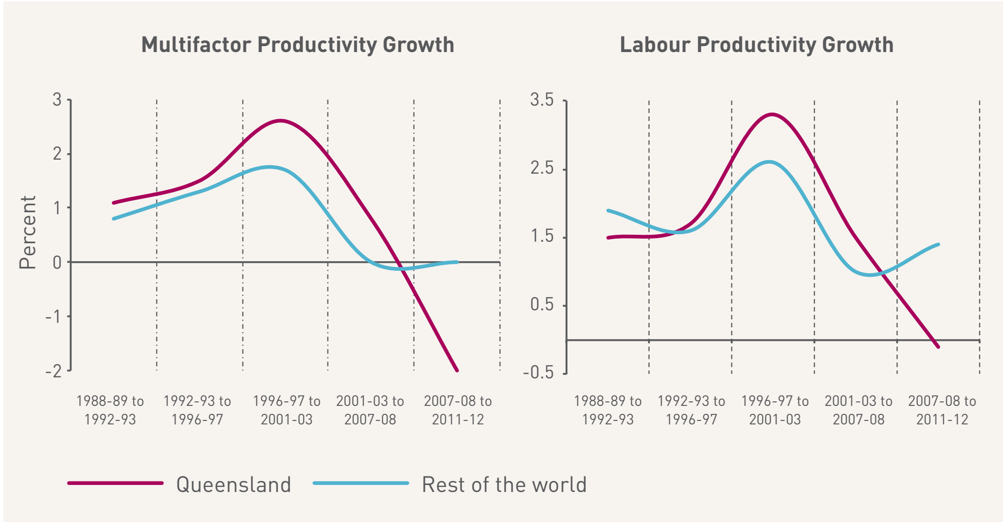


Source: The Conference Board Total Economy Database, ABS 5206

QUEENSLAND'S PRODUCTIVITY HAS DECLINED MORE RAPIDLY THAN AUSTRALIA'S

While Australia has lagged international productivity growth, Queensland's productivity has fared even worse. In terms of multifactor productivity growth, Queensland has outperformed the rest of Australia for the majority of the period leading up to 2006-07, however, since then Queensland's productivity performance has recorded a sharp decline and growth has been lower than Australia. Queensland's multifactor productivity recorded a decline of 2.0 per cent per annum over the period 2007-08 to 2011-12, compared with an unchanged MFP result in the Rest of Australia (see Figure 5). Queensland labour productivity performance has also declined more rapidly than Australia's.

FIGURE 5: AVERAGE ANNUAL GROWTH OVER PRODUCTIVITY CYCLES

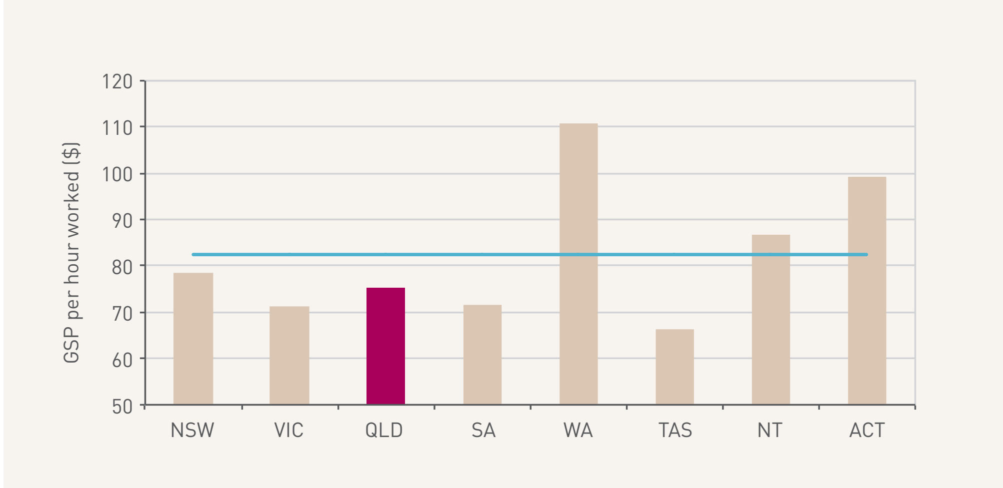


Source: Queensland Treasury & Trade 2013

There has been an underlying downward trend in productivity growth over the last decade. In outright terms, Queensland now lags the national productivity average.

NATURAL DISASTERS HAVE CONTRIBUTED TO QUEENSLAND'S PRODUCTIVITY DECLINE

FIGURE 6: QUEENSLAND'S LABOUR PRODUCTIVITY (GSP PER HOUR WORKED), JUNE 2013



Source: ABS 5220 Australian Nations Accounts: State Accounts; ABS 6202 Labour Force

Weather and natural disaster events have contributed to the decline in Queensland's productivity. In particular, the floods of 2011 and again in 2013 following Cyclone Oswald have significantly reduced agricultural output. The recent drought conditions in Queensland may also be a downward influence on short term productivity.

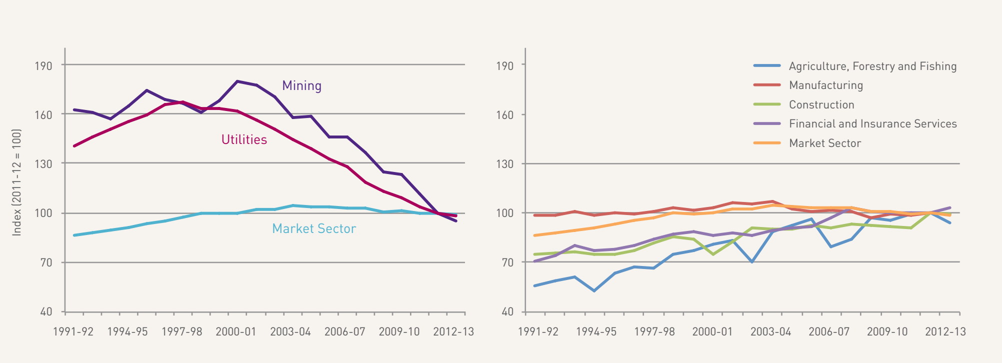
LARGE CAPITAL INVESTMENTS HAVE DETRACTED FROM PRODUCTIVITY PERFORMANCE

More significantly, the mining and utilities sector (electricity, gas, water and waste services) have been a significant negative influence on Queensland's productivity performance. Between 2003-04 and 2011-12, capital investment in mining increased by 166 per cent and hours worked by 185 per cent, yet the real output of the mining industry grew only 15.3 per cent.[4] Mining industry productivity has declined due to high capital investment, particularly for liquefied natural gas projects, with the corresponding increase in output yet to be realised.

Continued capital investment in the utilities sector for increased reliability, combined with higher cost technologies to provide improved environmental outcomes, has contributed to negative multifactor productivity growth.

Similar to the situation in Queensland, the mining and utilities sectors have influenced Australia's multifactor productivity performance over the last decade (see Figure 6). The record level of capital investment in mining is expected to become a positive influence on productivity in future years as the industry production volumes increase. Improved productivity in the utilities sector will depend on growth in consumer demand to ensure infrastructure is fully utilised.

FIGURE 7: MULTIFACTOR PRODUCTIVITY GROWTH IN SELECTED INDUSTRIES



Source: ABS 5260

LACK OF PRODUCTIVITY ENHANCING REFORMS IS CONCERNING

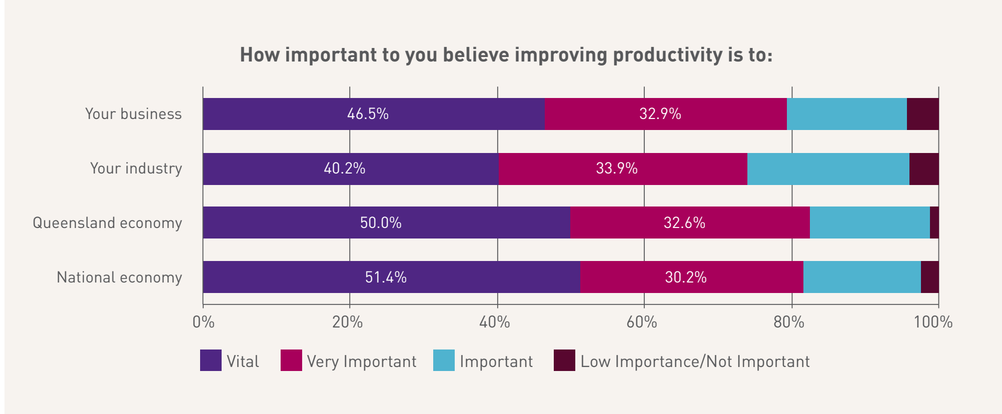
However, the mining and utilities industries alone cannot explain Queensland and Australia's overall productivity slowdown. The productivity slowdown is more likely due to the fading of the effects of the previous reforms and to a slowdown in implementation of new productivity enhancing reforms. Australia's productivity growth accelerated in the 1990s on the back of microeconomic reforms that helped reallocate labour and capital to where they were more productive.

Other factors influencing productivity performance include increased regulation, the effects of capacity constraints, and lagging uptake of technology. This view seems largely supported by feedback from Queensland business owners and managers, many pointing specifically to increased red tape, changes in the industrial relations framework and high cost of running a business as having adverse effects on productivity.

QUEENSLAND BUSINESS AND PRODUCTIVITY

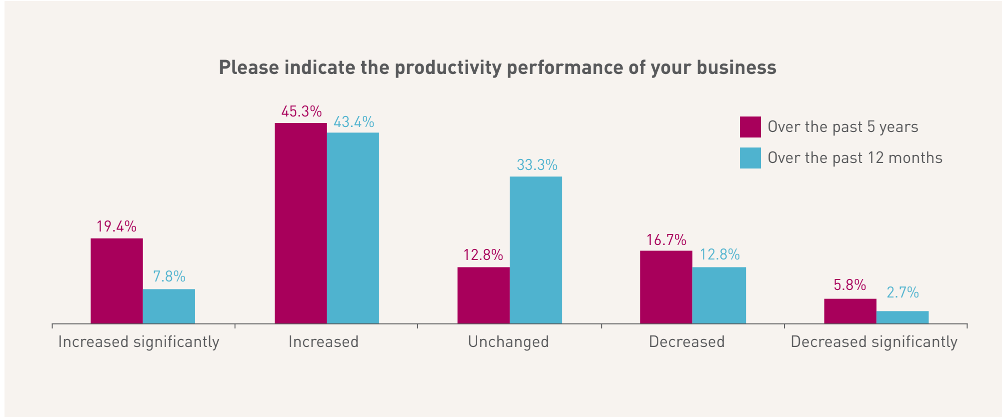
BUSINESSES BELIEVE PRODUCTIVITY AT A FIRM LEVEL IS IMPORTANT BUT EVEN MORE IMPORTANT FOR THE OVERALL ECONOMY

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

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.

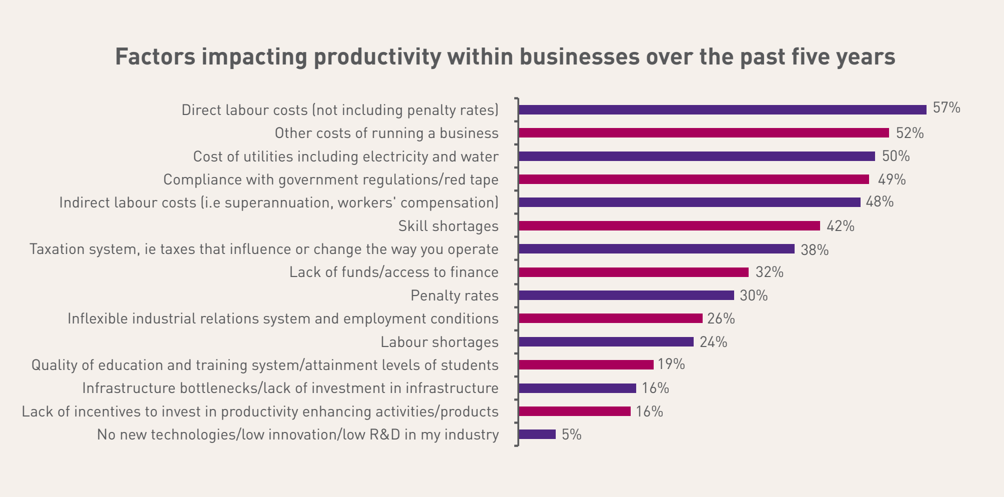
BUSINESS PRODUCTIVITY HAS BEEN DRIVEN BY A NEED FOR SURVIVAL RATHER THAN FOR GROWTH

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 CCIQ 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.

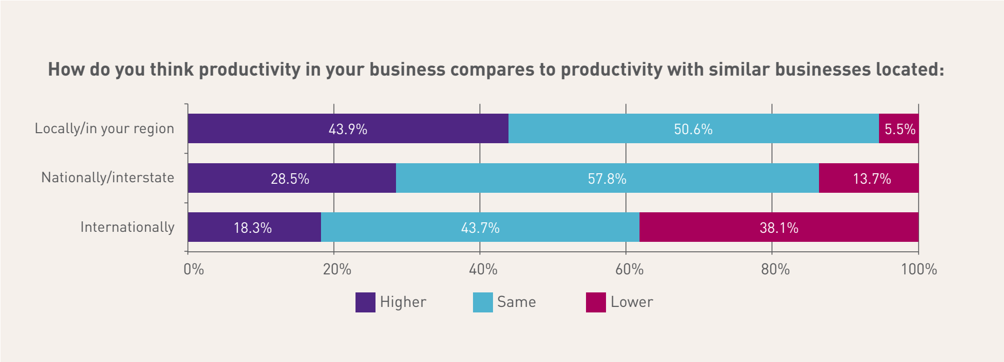


Source: Westpac Group CCIQ Pulse Survey of Business Conditions

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.

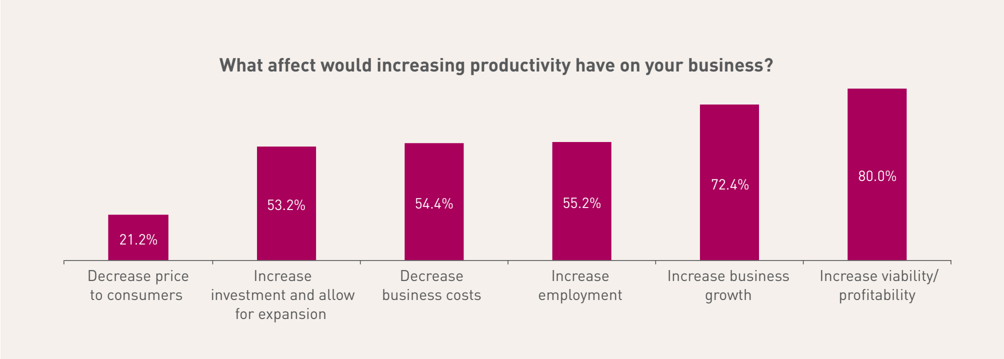
MOST QUEENSLAND BUSINESSES BELIEVE THEIR PRODUCTIVITY IS COMPARABLE TO LOCAL AND REGIONAL COMPETITORS

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.



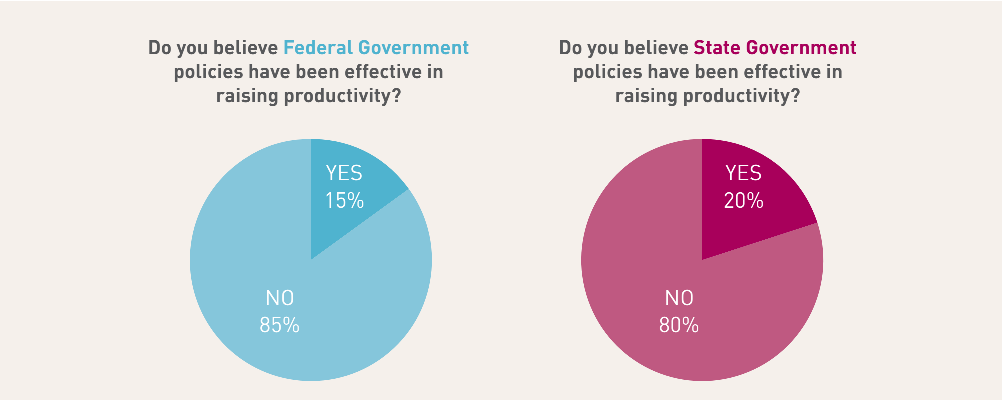
Source: Westpac Group CCIQ Pulse Survey of Business Conditions

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.



Source: Westpac Group CCIQ 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.



Source: Westpac Group CCIQ Pulse Survey of Business Conditions

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

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

FLEXIBILITY	CAPABILTIY	INCENTIVES
Better regulate	Develop workforce skills	Reform tax
Create flexible workplaces	Improve infrastructure investment	Encourage fairer competition
	Enhance innovation	

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.

REGULATE BETTER

Regulation has a legitimate role to play in addressing market failure, meeting societal expectations or creating conditions for businesses to successfully operate, grow and employ. However, existing regulation in Queensland and Australia is excessive and preventing optimal productivity performance.

To support the productivity agenda, red tape reduction policies should remove unnecessary regulation, ensure new regulation does not creep in to replace previously repealed laws, and ensure compliance is efficient and cost-effective.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Prioritise red tape reduction that delivers highest productivity gains	■		
Reduce compliance costs	■		
Improve regulator engagement with small business		■	
Improve Regulator Impact Statements process		■	
Establish zero net growth policy for regulation			■

PRIORITISE RED TAPE REDUCTION THAT DELIVERS HIGHEST PRODUCTIVITY GAIN

The reduction in overall volume of regulation needs to be felt in a meaningful way by business owners and managers if it is to deliver any change in business practices and in turn, productivity.

Current policies are a step in the right direction. The Queensland Government has set a red tape reduction target of 20 per cent by 2018 and is measuring progress based on the change in the number of regulatory requirements (3.55 per cent reduction between March 2012 and June 2013).[5] The Federal Government has set a regulatory burden reduction target of $1 billion per year and established an annual red tape repeal day.

Despite the positive progress, small and medium businesses are not yet experiencing substantial relief from red tape reduction. This is because of the many layers of regulatory requirements imposed by local, state and federal government that collectively create the red tape burden.

CCIQ believes coordinated effort from all levels of government is needed to identify priority areas of reform based on consultation with small and medium businesses. This includes developing profiles that document the full regulatory requirements for a business operating in a particular industry. Common sources of regulatory burden include registration and licensing requirements, tax reporting, health and safety, development and planning approvals and industrial relations. Once priorities are established, these should be transparently reported in a forward schedule of red tape reduction initiatives for the business community.

CCIQ believes there is merit in establishing an incentive program for regulatory agencies to accelerate red tape reduction. For example, in the Queensland Government should introduce policies that reward government agency employees for red tape reduction that goes beyond their allocated share of the 20 per cent target. Agencies should also be encouraged to prioritise reforms that will be most beneficial to small and medium businesses, recognising that the regulatory burden is felt disproportionately by these businesses.

REDUCE COMPLIANCE COSTS

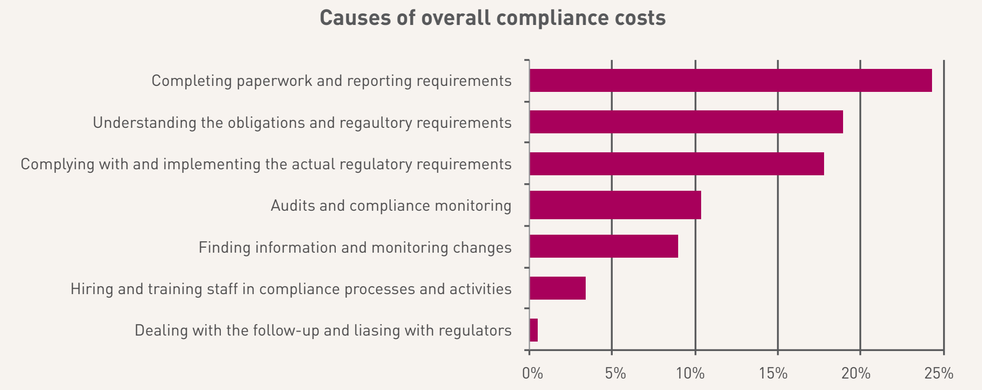
Complex regulatory compliance increases the cost of running a business and stifles productivity. The compliance burden is felt more severely by small and medium businesses that do not have the depth of resources to deal with costly and time consuming reporting.

With increasing proportions of their time devoted to compliance, business owners are unwilling to take on productivity initiatives. Undertaking organisational change, entering new markets or developing new products and services all carry some degree of risk.

CCIQ believes that policies must focus on improving the efficiency of compliance transactions to deliver quantifiable savings for businesses, which in turn will motivate business owners to make productivity enhancing decisions. Priorities for regulatory agencies include:

- risk-based compliance with fewer inspections and reporting by exemption for low risk businesses;
- automatic renewal of licences for businesses with good compliance history;
- collecting the minimum amount of information required for effective enforcement, tailored around data businesses already collect;
- standardised business reporting;
- recognition of industry and third party certification; and
- greater use of voluntary self-regulation.

Timely implementation of these actions will ensure compliance processes are less disruptive on business operations, reduce document processing costs, and lessen the costs businesses incur when training staff on compliance.



Source: CCIQ Red Tape Survey 2013

IMPROVE REGULATOR ENGAGEMENT WITH SMALL BUSINESS

Improving regulator engagement with small businesses can directly boost productivity by increasing the efficiency and effectiveness of business compliance interactions. The Productivity Commission has aptly noted that it is through engagement with regulators in their role of administering and enforcing regulation that small businesses primarily 'experience' regulation and much of the associated compliance burden.[2]

CCIQ believes the relationships between regulators and small business can be improved by:

- establishing a one-stop-shop with business friendly guides and up-to-date information on all regulatory requirements;
- developing online tools that enable sharing of compliance information across regulatory agencies;
- upskilling regulators to give consistent and useful advice; and
- instilling a client-oriented approach to move regulators from a role of scrutiny to a facilitator of compliance.

In addition, all agencies should be required to publish policies that set out how they will interpret their regulatory requirements. This will bring predictability to the regulatory process by establishing clear expectations on what businesses need to do to satisfy the regulatory requirements.

IMPROVE REGULATORY IMPACT STATEMENT PROCESS

The Regulatory Impact Statement (RIS) can contribute to productivity improvements by ensuring the benefits of new regulation outweigh the costs of managing identified risks. However, the RIS process is not being used adequately and there is a tendency to over regulate.

In the year to June 2013, there were a large number of requests to the Queensland Competition Authority (QCA) for exclusion of regulatory proposals from the RIS system (refer Table 1). Furthermore, only five of the 131 Preliminary Impact Assessments progressed to the consultation RIS stage.

Exemptions to the RIS process need to be strictly enforced. Instead, there must be a renewed focus on assessing whether there is a genuine need for new regulation and whether all other alternatives to regulation have been investigated. While some regulatory proposals may, in isolation, appear reasonable, they can become detrimental to businesses when combined with the existing regulatory burden.

The RIS process must take into consideration the impacts at the business level, which is where regulatory proposals influence productivity performance. All new regulation inevitably comes at some cost for businesses. This includes staff time to meet new obligations, including employment of contract staff on occasion, acquisition of additional capital equipment or the costly modification of existing buildings and infrastructure. New regulation also diverts resources away from activities that would have otherwise resulted in the production of additional goods and services.

The RIS should embed a protocol for consultation with small and medium businesses and a mandatory business cost calculator for new regulation. This will better inform the choice of regulatory instruments and compliance methods to ensure these are practical and cost-effective for businesses.

TABLE 1: QCA REGULATORY ASSESSMENT BY PROPOSAL TYPE, 2012-13

TYPE OF ASSESSMENT	NUMBER	AVE. TIME OF ASSESSMENT (DAYS)
Request for exclusion	104	3.6
Preliminary impact assessment	131	5.2
Draft regulatory impact statement (Consultation RISs)	10	6.5
TOTAL/AVERAGE	244	4.3

Source: QCA 2012-13 Annual Report on Reducing the Burden of Regulation in Queensland

ESTABLISH A ZERO NET GROWTH POLICY FOR REGULATION

Maintaining momentum for red tape reduction will ensure productivity growth is sustained over the longer term. We need ongoing red tape reduction across all levels of government.

Regulatory churn increases the cumulative burden of national, state and local government regulations on small and medium businesses. The COAG reform agenda on a national seamless economy focused on harmonisation of existing regulation and not specifically on reducing the overall volume of government regulations.

In addition to satisfying the public benefit test, new regulation should be accompanied by an offsets policy that would repeal existing regulation or reduce regulatory burden. An offset may be achieved via reduced fees and charges, simplified systems for compliance, or automated processes that reduce business costs. This approach would ensure there is zero net growth on the regulatory burden for business.

CASE STUDY: The UK government has established a 'One-in, Two-out' rule to reduce the impact of regulation on business. This requires that any regulatory measure that is expected to result in a direct net cost to business must be offset by measures that deregulate business and provide savings to business of at least double that amount. Regulatory agencies are required to comply with the Better Regulation Framework Manual – Practical Guidance for UK Government Officials for any measures that regulate or deregulate business or concern the regulation of business. This includes requirements to gather evidence for an impact assessment of regulatory measures, with specific consideration of small and micro businesses. The default position is for small and micro businesses to be exempt from any new regulatory measures. If exemption is not viable, then any disproportionate impact must be fully mitigated, with the analysis of small business impacts scrutinised by the Regulatory Policy Committee.

CREATE FLEXIBLE WORKPLACES

Australia's current workplace relations system is a drain on productivity. It fails to recognise that economic growth has natural peaks and troughs which necessitate ability to respond across industry sectors and within businesses. Rigid workplace relations laws make it costly for firms to restructure and provide no incentives for workers to move to more productive arrangements.

We need a modern workplace relations system that will give employers flexibility to respond to changing market conditions. Workplace relations reforms can be mutually beneficial to employers and employees. Queensland business owners understand that engaged and empowered workers are productive ones. It is not about doing longer hours or driving down wages, but rather encouraging a shift towards higher value products and services. The Productivity Commission's inquiry into workplace relations will be critical to setting future policy direction.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Link minimum wage settings to productivity	■		
Greater use of flexible arrangements	■		
Practical approach to penalty rates	■		
Restore merit based unfair dismissal processes		■	
Refocus enterprise bargaining on workplace productivity			■

LINK MINIMUM WAGE SETTING TO PRODUCTIVITY

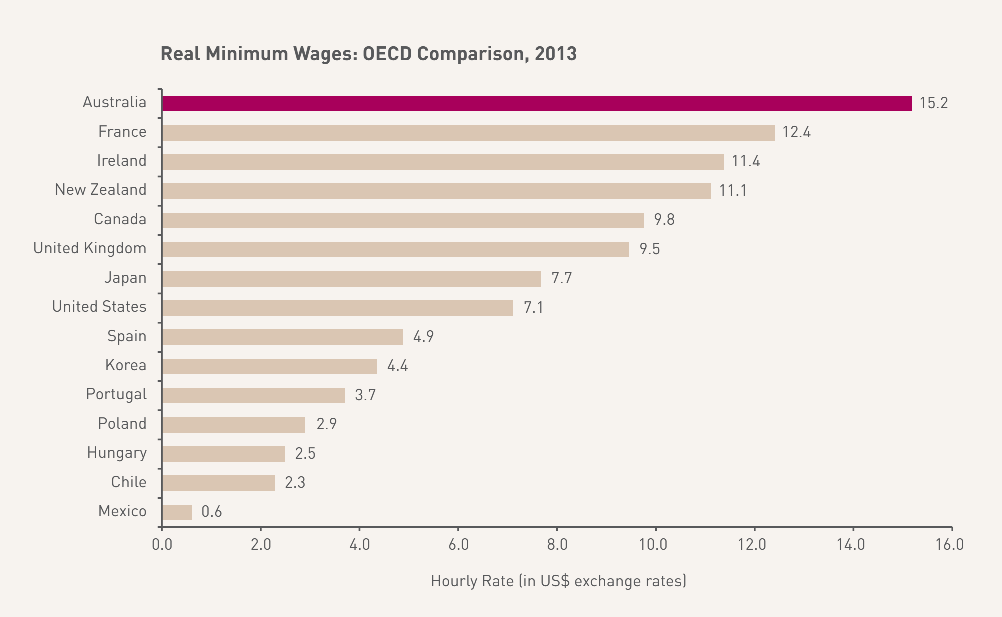
Australia's annual minimum wage setting process has resulted in increases to the minimum wage above the rate of productivity growth. Australia's minimum wage is the highest amongst the OECD countries. Businesses have to offset the increased costs of employment by reducing staff hours, employing less staff, reducing other operational costs or a combination of absorbing costs with reduced profitability.

Queensland small and medium businesses are very sensitive to the impacts of minimum wage changes given the high concentration of minimum wage and award-reliant jobs amongst these businesses, particularly in the hospitality and retail sectors. Minimum wage rises are making it harder for these businesses to employ, especially when compounded by labour on-costs of penalty rates, allowances, superannuation, payroll tax and workers compensation premiums.

The minimum wage setting process also fails to consider the effects on segments of the labour force, particularly the youth labour market. Youth unemployment (people aged 15- 24 years) is now at 13.8 per cent, more than twice the national average (ABS 6202.0 Labour Force).

The relatively high minimum wage is leading to a withdrawal of young people from labour participation because of limited job opportunities at the entry level. This means young people are not gaining valuable work experience. With longer time out of the workforce and lower skills, the minimum wage rises are pricing young people out of a job.

In the longer term, sustained increase in the real minimum wage requires increases in the rate of productivity growth for employees in these positions. This cannot be achieved within the confines of the current Fair Work Commission's annual wage review process. A revised approach is needed that takes into account employer's capacity to pay in the minimum wage determination. In addition, there needs to be a thorough evaluation of how training can boost the skills of those employed on the minimum wage to achieve the desired productivity gains.



Source: OECD Statistics, June 2014

GREATER USE OF FLEXIBLE ARRANGEMENTS

Productivity at the firm level is directly affected by workplace arrangements. Business owners need freedom to identify arrangements that increase the take-up of innovative practices that make best use of workers' skills and expertise. Currently, use of Individual Flexibility Agreements (IFAs) is severely limited by the strict conditions under the Fair Work Act.

This includes minimum engagement periods that prevent greater use of casual working arrangements which are at the heart of industries that underpin the Queensland economy. Also, increased flexibility within a workplace is being met with hostility from trade unions. As a result, the majority of businesses find it impossible to establish the flexible working arrangements they desire to deliver mutually beneficial outcomes that meet their needs and employees' individual circumstances.

IFAs must be readily available to businesses to allow them to incentivise and reward productivity in the workplace. It should also encourage changes within businesses to capitalise on opportunities created by new markets, process and technology.

The Fair Work Act should be amended to facilitate flexibility in employment arrangements while ensuring that all participants are treated fairly. This includes broadening the scope of the 'better off overall test' so a wider range of matters can be considered in applying the test and IFAs offered as a condition of employment.

RESTORE MERIT BASED UNFAIR DISMISSAL PROCESSES

The current system of unfair dismissal claims prevents businesses from making productivity enhancing decisions. In practice it means businesses are unable to replace unproductive workers with those more productive and it prevents structural change from occurring across industries where new skill sets are needed. In both these instances national productivity and business competitiveness are adversely affected.

We need a simpler unfair dismissal process that encourages investigation of claims based on merit and restores balance to the employer-employee relationship. Appropriate exemptions for small businesses should also be implemented.

In the 2014-15 Global Competitiveness Report highlights the rigidity of Australia's labour market as an ongoing area of concern. Australia ranks 136th out of 144 countries in terms of hiring and firing practices and 132nd for flexibility of wage determination. Australia ranks 124th for the extent of red tape, with restrictive labour regulations identified as the most problematic factor affecting business operations. When considering the extent to which pay relates to worker productivity, Australia ranks 125th, which reinforces the need for workplace relations reform.

Source: World Economic Forum 2014, The Global Competitiveness Report 2014-15

PRACTICAL APPROACH TO PENALTY RATES

To be productive, businesses must be allowed to tailor their staffing arrangements in response to the peak demand periods for their products and services. The current system of penalty rates prevents businesses from trading over extended hours, on weekends or on public holidays. This is a significant issue for businesses, particularly those businesses operating in the hospitality, retail and tourism industries.

As a consequence of the penalty rate regime, businesses choose not to trade on particular days of the week or statutory holidays. Additionally, some restaurants choose to open with reduced floor serving or insufficient staff to maintain customer service standards.

Productivity growth requires a practical approach to penalty rates that reflects the modern 24/7 operations of businesses. A possible solution is applying penalty rates when more than five shifts are worked in a week or more than 10 hours in any day. Also, the Fair Work Act should be amended to allow penalty rates to be traded-off under Individual Flexibility Agreements.

REFOCUS ENTERPRISE BARGAINING ON WORKPLACE PRODUCTIVITY

The relationship businesses have with their employees influences the productivity of workplaces. Enterprise bargaining can be a tool for improving productivity when it allows for increased flexibility and helps avoid industrial disputes.

However, the bargaining process has become overly complex and costly. An enterprise agreement can only be implemented if it satisfies 'better off overall test' for an award covered employee. Further, the scope of bargaining content has expanded so that bargaining no longer pertains simply to wages and conditions but to all aspects of the employment relationship – including employers' ability to hire contractors, use casual workers and union access to business financial documents.

A reformed approach to enterprise bargaining is needed so bargaining is undertaken in good faith and on reasonable terms, specific to wages and conditions in the employment relationship. Enterprise bargaining can be a tool for improving productivity where union involvement is proportionate to its representation and union power is not misused to impose conditions that damage competitiveness.

DEVELOP WORKFORCE SKILLS

Increasing the level of skills in the workforce directly raises productivity. This is because skilled workers maximise the returns on productivity enhancing capital investments in the workplace and can more readily adapt and implement new ideas.

A priority for public policy then, is to support the development of foundation skills through higher education attainment rates and qualification based learning relevant to the workforce. Given the working-age population (15-65 years) is becoming smaller relative to the population aged over 65 years, policies need to focus on making the best use of skills and capabilities available in the workforce as well as securing a skilled labour supply that meets future business needs. This requires addressing skills shortages by facilitating labour mobility (both between regions and professions), increasing workforce participation and fostering a workplace culture based on continuous skills development.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Encourage skilled labour	■		
Increase workforce participation		■	
Develop business relevant vocational education and training system		■	
Improve quality of education outcomes			■
Establish a workforce skills planning culture			■

ENCOURAGE SKILLED LABOUR MOBILITY

The efficient movement of skilled workers via intrastate, interstate and overseas migration will help boost productivity by matching labour supply with industry demand.

State Government policies need to continue to promote job opportunities and the liveability of Queensland to attract skilled workers from other states. Migration will be a vital source of Queensland's future labour supply. Policies also need to facilitate the mobility of skilled labour between Queensland regions by providing incentives to improve the attractiveness of regional areas.

Overseas migration is also important to address labour shortages and improve productivity. Federal Government policies must simplify current migration programs and provide assistance so businesses can better access the benefits of skilled migration. As a priority, CCIQ recommends streamlining 457 visas by:

- reducing paperwork and application costs;
- removing the labour market testing requirements that disadvantage regional small businesses;
- amending the consolidated skills occupation list to include small business skills areas such as entrepreneurship, management and commerce; and
- establishing appropriate English language requirements through consultation with businesses.

Adequate resourcing of government agencies to support effective monitoring will ensure there is a targeted response to non-compliance and will maintain integrity of skilled migration programs without introducing more stringent requirements that unnecessarily burdens all businesses.

INCREASE WORKFORCE PARTICIPATION

There are currently workforce participation challenges for women, mature-aged workers, long term unemployed, Indigenous Australians and people with disability. Australia could increase its GDP by 13 per cent or $180 billion if it closed the gap between male and female participation rates.[6]

Changes to child care such as improved availability, extended hours of operation and introducing changes to the taxation system (e.g. introducing the capacity to salary sacrifice as a legitimate work expense) would assist women return to the workforce.

Financial incentives should be available for businesses and industries that employ and train those from demographics of people who are currently underrepresented in the workforce. This would need to be complemented with improved information and advice from government on hiring and workplace practices relevant to minority labour groups.

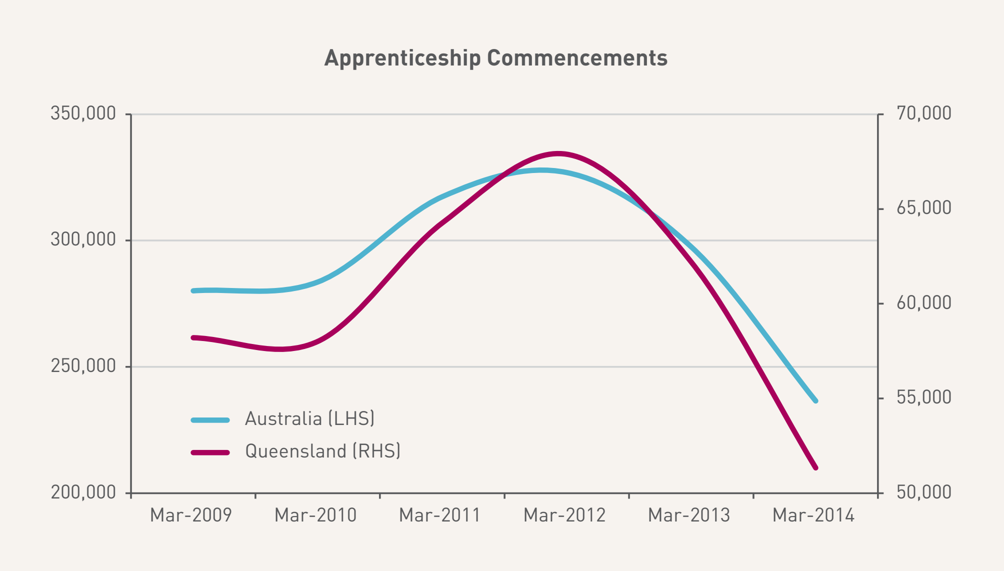
DEVELOP A BUSINESS RELEVANT VOCATIONAL EDUCATION AND TRAINING SYSTEM

Reform of the vocational education and training (VET) sector must be underpinned by the needs of small and medium employers as key end-users and have a greater focus on skills development that these businesses need to boost productivity. This requires a coordinated approach to business engagement so the VET sector is more responsive to emerging patterns of work, new or rejuvenated industries and business models, and areas of strong demand or growth markets.

The Queensland Government policies to increase contestability of training funding and establish TAFE Queensland as an independent statutory authority are welcomed. Further reform is needed based on policies that:

- ensure TAFEs operate where needed but not preclude private training providers;
- decentralise VET funding decisions to ensure training provided meets local business needs;
- better align State and Federal VET programs to reduce duplication and complexity;
- support stronger employer incentives to hire apprentices and trainees; and
- better engage the business community in implementing policy changes.

Access to apprenticeship opportunities is particularly important for building the skills of young people. The number of commencements, in both trades and non-trades apprenticeships, continues to decline, which is a direct result of the removal of incentives to offer apprenticeship opportunities over the past two years.[7] Productivity growth will depend on combined efforts from both State and Federal government to reinstate employer incentives for on-the-job training opportunities and establish a clear vision for the apprenticeship model in supplying skills for jobs in the future.



Source: National Centre for Vocational Education Research, Apprentices and Trainees 2014 March Quarter

IMPROVE QUALITY OF EDUCATION OUTCOMES

Maximising the investment made in educational qualifications is essential to meeting the productivity challenge. It is not as simple as increasing expenditure. Australia has significantly increased overall levels of funding in the education sector yet student performance has fallen. [8]

Policies that ensure high level foundation skills in literacy, numeracy and language skills in the national curriculum, lift the standards of teacher quality and increase educational attainment levels will deliver productivity improvements over the long term.

A dedicated career advice system is also needed to facilitate career pathways. It would need to service young people throughout their schooling and career as well as provide learning services for adults and existing workers. If well implemented, a national career advice system will increase the employability and productivity of investment in skills.

> Only 54 per cent of Australians aged 15 to 74 years have been assessed as having the prose literacy skills needed to meet the complex demands of everyday life and work. By 2025, Australia could be 2.8 million short of the number of higher-skilled qualifications that industry will demand.
>
> Source: Australian Workforce and Productivity Agency 2013, Future Focus 2013 National Workforce Development Strategy

ESTABLISH A WORKFORCE SKILLS PLANNING CULTURE

State and Federal Governments need to improve sector-wide workforce planning, recognising that there are different skills challenges for each industry and across regions. Industry specific skills plans should be developed, which would include an analysis of core skills sets and strategies to address emerging workforce challenges and needs.

Business involvement in workforce skills planning is vital to improve the quality of information and accuracy of future skills forecasts. Governments should increase engagement with the business community through policies that actively promote life-long learning and workforce skills planning at the firm level.

This would help improve skills utilisation and foster a culture of continuous up-skilling and re-skilling to ensure businesses have the skilled workers they need to remain competitive. It would also better inform sector-wide workforce planning strategies undertaken by government to generate the skills required to sustain longer term productivity growth.

IMPROVE INFRASTRUCTURE INVESTMENT

Queensland and Australia face challenges of investing and maintaining extensive transport, energy, water and telecommunications infrastructure in order to support economic growth. Inadequate and costly infrastructure is affecting the efficiency of business operations and the ability of businesses to grow and capitalise on new market opportunities.

The simple argument, more infrastructure in Australia is better, no longer applies when productivity growth is a goal. [9] Policies need to focus on improving the governance of infrastructure investment.

This requires selecting the right combination of infrastructure projects, establishing risk sharing arrangements that underpin sound financing and a greater private sector role, and adopting user pays pricing to ensure infrastructure can be sustainably funded over time.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Develop Queensland infrastructure plan	■		
Streamline approvals for priority infrastructure		■	
Greater private sector involvement in infrastructure		■	
Adopt user pays pricing mechanisms			■

DEVELOP QUEENSLAND INFRASTRUCTURE PLAN

Queensland needs a long term, state wide infrastructure plan that prioritises projects on the basis of what will have the greatest productivity gain. A Queensland Infrastructure Plan must:

- be informed by economic development strategies;
- improve mobility of skilled labour across the state;
- efficiently distribute goods and services domestically and internationally;
- ease congestion; and
- improve resilience to natural disasters, in particular ensuring the transport network maintains connectivity and reduces flood isolation.

A Queensland infrastructure plan would need to be comprehensive with strategies to better use existing infrastructure, incrementally address bottlenecks and provide a pipeline of investment in new infrastructure. This includes mapping all existing assets and networks, assessing the suitability of existing infrastructure to regions and industry, and addressing affordability issues for business.

Identifying a pipeline of infrastructure projects over the short, medium and long term is especially important to maintain a robust program of integrated infrastructure developments. This would provide transparency to the business community about infrastructure decisions.

FAST TRACK APPROVALS FOR PRIORITY INFRASTRUCTURE

Infrastructure that is included in the proposed Queensland Infrastructure Plan should benefit from streamlined permit approvals and land acquisition. This will ensure the productivity gains are maximised.

Approvals for infrastructure projects are complex and time-consuming. The process can increase the already large upfront costs and lengthy timeframes for return on investment. Improving the approval processing time and increasing the predictability of outcomes will deliver cost savings. These efficiency gains can then be used to supply cost-effective infrastructure solutions and expand community access to these solutions.

GREATER PRIVATE SECTOR INVOLVEMENT IN INFRASTRUCTURE

CCIQ believes that an enhanced governance framework based on public-private collaboration can lift the productivity of infrastructure by improving the timeliness of projects and lowering costs. A 10 per cent reduction in the cost of delivering infrastructure would yield an annual saving of $3.5 billion and a conservative target of $1 billion per annum saving is quite feasible. [10]

Policies must go beyond just private financing of infrastructure and allow a broader role for the private sector in planning, development, construction and operation of infrastructure. This requires:

- expanding the participation of the private sector in project selection to make better use of existing capacity and identify affordable solutions;
- more accurate demand forecasts to inform standards for infrastructure reliability that appropriately matches demand;
- exploring various types of risk sharing arrangements that set out clear responsibilities for the private and public sector during construction and operation to capture potential savings;
- increasing the transparency of decision making; and
- opening up the infrastructure market to alternative sources of finance, including superannuation funds and foreign investors.

There has been a tendency to invest in infrastructure network capacity to improve reliability that has been out of step with the demand. [11] Reliability standards in Queensland's electricity network, for example, have led to network investments that impose high costs on consumers. An expanded relationship with the private sector can help improve the understanding of cost drivers and the overall efficiency of infrastructure investments.

ADOPT USER PAYS PRICING MECHANISMS

To boost productivity, infrastructure needs to be used efficiently and the best way to achieve this is through user-pays pricing mechanisms. Proper application of user-pays mechanisms offers scope to manage more efficiently users' demands on infrastructure networks and to use price-signals to identify what service characteristics are most valued by users. [12] It also provides a revenue source to pay for the infrastructure over time.

A user pays framework needs to be first and foremost, relevant. The charges must be appropriate to encourage usage of the new infrastructure, otherwise the productivity gains will not be realised. Toll roads in Queensland have not been embraced by the community and estimates of usage have proven to be unrealistic.

Public acceptance of user charging will depend on the benefits of using the infrastructure being obvious and justified. A user pays framework also needs to be complemented by service benchmarks for the whole-of-life performance of the infrastructure assets.

ENHANCE INNOVATION

Coordinated and systematic policy action is needed to encourage Queensland small and medium businesses to make innovation investment decisions, which in turn will drive productivity improvements across the economy.

From a small and medium business perspective, the ability to innovate is not straightforward and is essentially an investment decision. It requires deliberate decisions to invest in appropriate skills, time and resources to develop new products and services, improve business processes, adopt leading technologies and introduce new business models.

While there is strong propensity amongst Queensland's entrepreneurs to undertake both novel and incremental innovation, significant challenges remain.

Government policy must establish the right innovation settings by establishing a clear vision about the importance of innovation and recognising the pivotal role of small and medium businesses in the innovation system. An innovation policy must seek to address regulatory barriers to innovation, assist small business access finance and develop collaborative innovative networks. Importantly, government innovation policy must shift away from an approach that is dominated by grant programs towards an incentives-driven approach to business innovation.

Queensland's productivity aspirations will also require increasing levels of innovative activity by the public sector. Governments at all levels must take a leadership role to drive innovation through public research, procurement strategies and providing a robust intellectual property rights system.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Improve small business innovation capability	■		
Facilitate small business access to finance		■	
Consolidate government programs targeting innovation		■	
Facilitate collaboration with international innovators		■	
Government to be innovation leader			■

IMPROVE SMALL BUSINESS INNOVATION CAPABILITY

Government policies can help improve the innovation capability of Queensland small and medium businesses by:

- removing regulatory barriers to innovation;
- supporting the uptake of information and communications technology (ICT); and
- supporting the development of business leadership and managerial skills to foster an innovative culture.

Innovation capability is adversely impacted by regulatory barriers that undermine the financial incentives for businesses to undertake productivity-enhancing innovations. This includes the failure of regulators to recognise innovative technologies when assessing business compliance requirements. For example, one Queensland business has told CCIQ how investment in innovative production line equipment (that reduced injury lost time to zero) provided no relief from prescriptive WHS compliance requirements.

BUSINESSES THAT INNOVATE ARE MORE THAN TWICE AS LIKELY TO REPORT AN INCREASE IN PRODUCTIVITY. INNOVATIVE BUSINESSES WERE ALSO MORE LIKELY TO REPORT AN INCREASE IN PROFITABILITY AND EMPLOYMENT.

BUSINESSES WITH INNOVATIVE ACTIVITY WERE MORE THAN FOUR TIMES AS LIKELY TO REPORT AN INCREASE IN TRAINING FOR EMPLOYEES COMPARED TO BUSINESSES THAT DON'T INNOVATE.

Source: ABS, 8167.0

Policies must aim to deliver affordable, accessible and reliable broadband services throughout Queensland. This will help businesses compete globally and generate revenue online, reduce compliance costs with online reporting, and intensify ICT usage. Firms that are more ICT intensive are generally more innovative and in turn, more productive. ICT improves the speed and quality of creating, transmitting and absorbing ideas that leads to innovation.

Small and medium businesses, because they are time and resource poor, are often unable to invest in training and up-skilling. Government policies need to support improved digital skills that enable businesses to connect online with confidence and develop online service offerings. It also requires improving business leadership and management skills that can quantifiably improve business innovation capability and in turn, the productivity of businesses.

FACILITATE SMALL BUSINESS ACCESS TO FINANCE

Queensland small and medium businesses have a high propensity to be innovative but there is a lack of access to finance. Policies need to facilitate greater access to finance by:

- establishing a code of practice for lending to small business;
- investigating a credit guarantee system for small business; and
- relaxing foreign investment restrictions.

Banks are becoming more risk adverse and use rigid assessment procedures to determine eligibility. There is opportunity for industry peaks to work with the banking sector to facilitate access to finance by developing a code of practice for lending to creditworthy small and medium businesses. A separate code of practice for small business lending will help progress genuine change in lending behaviour by setting out a framework that combines better information with better relationship banking.

Not all small businesses operate with the same risk levels and each business needs to be assessed on its own merit rather than using a standardised loan to value ratios. A code of practice for small business can also help reduce the complexity of loan covenants, which have become overly restrictive and prevent innovative practices.

There is merit in exploring a credit guarantee system for small and medium businesses. The United Kingdom, Canada and the United States have introduced guarantees on small business loans. Given the importance of small business growth to improving Australia's productivity, there is a valid role for government to play in underwriting to some extent, access to finance by these businesses.

The ability to attract foreign investment is crucial given Australia's traditionally low savings rate. Government has a key role in providing practical information and advice about domestic market conditions. High levels of direct foreign investment will give business a valuable source of working capital as well as an additional finance option for investing in business growth.

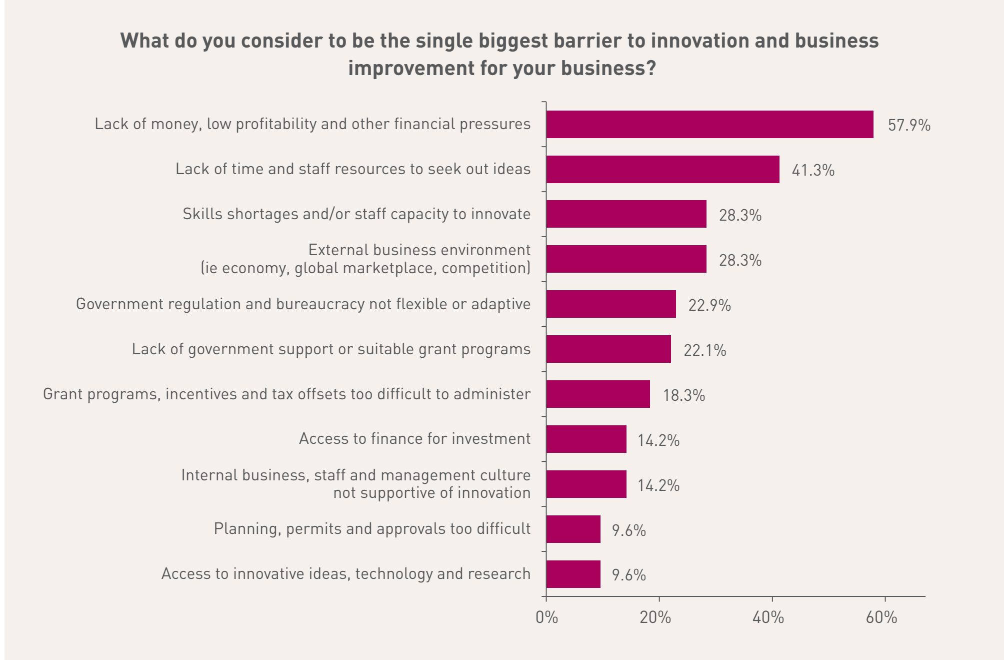
Foreign investment also increases the propensity of businesses to adopt productivity enhancing technologies and provides increased access to international markets with a larger customer base. Building capacity of Queensland small and medium businesses to capitalise on foreign investment is essential so the productivity gains from increased technology use and exports are realised.

CCIQ's Digital Readiness Survey of small and medium businesses in Queensland shows:

ALMOST 70% OF BUSINESSES GENERATE LESS THAN 10% OF THEIR REVENUE ONLINE, AND YET THE ONLINE CONSUMER SPEND CONTINUE TO INCREASE EXPONENTIALLY;

75% OF BUSINESSES DON'T HAVE A MOBILE VERSION OF THEIR WEBSITE, YET 11 MILLION AUSTRALIAN CONSUMERS CONNECT TO THEIR DIGITAL WORLD USING A MOBILE DEVICE;

67% OF BUSINESSES DON'T HAVE A DIGITAL MARKETING PLAN.



Source: Westpac Group CCIQ Pulse Survey of Business Conditions

CONSOLIDATE GOVERNMENT PROGRAMS TARGETING INNOVATION

The Queensland and Australian governments should review the number of existing programs aimed at supporting innovation with a view to achieving administrative efficiency and better aligning outcomes with needs of the business community.

Currently, innovation programs are poorly targeted, with a lack of coordination of funding and numerous overlaps between government agencies and other organisations involved in program delivery. Rationalising the number of government innovation programs is therefore a priority. Fewer programs that better align with the needs of business will provide greater benefits in terms of innovative activity and productivity gains.

Programs need to support innovative work practices not just research and development funding, which tends to favour larger organisations. To support small and medium business innovation, government programs should extend to innovative business practices, innovative approaches to regulatory compliance and encourage local businesses to be early adopters of innovation and technology from overseas in order to be leaders in emerging markets.

Establishing a single portal for all information on innovation programs will improve accessibility and transparency of grants to business. Also, the program information and associated guidelines, application forms and selection criteria need to be simplified and made more business friendly to improve the attractiveness and ensure optimal uptake of available funding.

FACILITATE COLLABORATION WITH INTERNATIONAL INNOVATORS

Innovation-led productivity growth is not dependent on Queensland being primary inventors. Early adoption of innovation and technology can also drive productivity at the organisational level and enable Queensland to be a leader in emerging markets. Accessing the benefits of innovations from overseas therefore offers a cost-effective strategy to boost productivity.

Policies should encourage collaboration with international innovators. With Queensland home to a number of leading and specialised universities and research facilities, tapping into this knowledge and expertise will be essential to our future success. We therefore need to create greater linkages between universities and other research organisations, and the public and private sectors in order to create and implement new and innovative solutions to emerging and existing public policy and business challenges.

CCIQ believes that the Queensland Government should investigate and trial a number of approaches to fostering collaborative working relationships between business owners and universities.

GOVERNMENT TO BE INNOVATION LEADER

Government led innovation, particularly in the area of public research, directly benefits productivity. Public research has spill over benefits in supporting business and individual responsiveness to market challenges. Businesses can use the ideas developed in public research institutes to support the development of their own new products and services. For example, improving capacity to respond to sustainable water use, biodiversity, and climate change.

There is an important role for government in establishing a robust and reliable system for the protection of intellectual property rights. The patent system needs to recognise various types of innovative products and services developed by small and medium businesses, particularly incremental advances in technology made by export focused firms seeking global markets.

Government can also lead innovation through its purchasing power. As a major consumer of private sector products and services, government agencies can demand new and better products, which in turn can drive innovative products and practices across industry sectors. It can also develop innovative ways to deliver its own services.

REFORM TAXATION

Tax arrangements are an important consideration for businesses when deciding whether to invest and the types of assets to purchase. Taxation can have a direct, positive impact on productivity if it allows businesses to allocate resources efficiently and encourages business investment.

However, Australia's tax system is highly inefficient with 117 of the 127 taxes generating just 10 per cent of the overall taxation revenue. There is also an over reliance on capital and income taxes.

Reforming our tax system is therefore fundamental to the productivity agenda and CCIQ welcomes the Federal Government's commitment to a White Paper on the Reform of Australia's Tax System. To boost productivity, tax reform should reduce the overall burden of tax, remove inefficient taxes, give states sufficient revenue raising capacity, and create incentives for businesses to grow and employ. This requires a comprehensive overhaul of our tax system.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Raise the threshold for payroll tax exemption	■		
Reduce company tax rate	■		
Simplify tax reporting	■		
Broaden scope of GST		■	
Correct Federal-State fiscal relationship		■	
Lower personal income and capitol income tax			■

RAISE THRESHOLD FOR PAYROLL TAX EXEMPTION

Payroll tax is one of the most inefficient taxes. It is a direct tax on employment that fails to capture the value-add of labour. Achieving substantial productivity gains will ultimately require a gradual phase-out of this tax.

Recognising that a complete phase-out is dependent upon longer term tax reform, there should be immediate payroll tax relief for small businesses. CCIQ urges the Queensland Government to follow-through with its commitment to lift the payroll tax exemption threshold from $1.1 million to $1.6 million by 2019.

Progressively lifting the exemption threshold is necessary to ensure Queensland business can continue to grow and employ until the full benefits of tax reform can be realised.

State payroll taxes should eventually be replaced with revenue from more efficient broad-based taxes that capture the value-add of labour.

Source: Ken Henry Tax Review 2010, Recommendation 57

REDUCE COMPANY TAX RATE

Lowering corporate tax rates can boost productivity by enabling domestic businesses to compete effectively for global capital and creating incentives for business investments. A one per cent cut in the company tax rate would increase GDP by around $3 billion, lift wages by 0.2 per cent and add around 10,000 jobs. [13]

As a relatively small economy, Australia does not have the expansive consumer markets to lure international companies like its larger economic counterparts, so tax arrangements can be an influential factor in decisions about where to invest. The ability to attract foreign investment is increasingly a driver of productivity because of the market links and technology expertise that accompany it.

The Federal Government must improve the competitive standing of Australia's tax system by committing to a corporate tax rate below the OECD average. Currently, Australia's corporate tax rate is 30 per cent, reducing to 28.5 per cent from July 2015, compared to an OECD average of 23.4 per cent.

Reductions to the company tax rate must be in addition to concessions within the existing business tax system such as depreciation allowances, exploration allowances and research and development tax breaks. This would ensure the lower company tax rate positively impacts after-tax returns and actually brings about change of investment behaviour at the business level.

SIMPLIFY TAX REPORTING

Tax simplification will reduce business tax compliance costs and redirect resources to more productive business activities. Valuable time and resources is currently being spent on tax compliance and these costs are proportionally greater for small businesses.

Tax compliance costs relate to the time spent by businesses recording information needed for tax as well as spending on external tax services for calculating and paying tax. These costs tend to increase with the number and types of business taxes, the complexity of tax rules and the levels of government involved.

Simplification measures should target areas such as eligibility rules for small business tax concessions, information requirements for invoicing, record keeping and business activity statements, tax scales and indexing thresholds to address bracket creep, and small business administration of employee superannuation.

BROADEN SCOPE OF GST

Currently, Australia's Goods and Services Tax (GST) has a narrow consumption base, with high growth sectors such as food, education and health services excluded. GST exemptions cost over $20 billion in foregone GST revenue in 2013-14. [14]

CCIQ believes tax reform must consider broadening the scope of the GST base by removing exemptions. This would need to be complemented by assistance measures for low-income households to maintain equity of the tax system.

Broadening the scope of the GST has two key advantages – it increases the overall efficiency of the tax system and provides a more stable source of tax revenue.

A broad-based consumption tax like the GST is more efficient than taxes on personal and company income that weaken incentives to work and invest. Broad-based consumption taxes, levied indirectly on goods and services, do not distort such decisions and support efficient allocation of resources in favour of earnings and investment, which leads to higher productivity.

Greater reliance on the GST also alleviates Australia's vulnerability to declining tax revenue growth. GST revenue in 2012–13 represented 12 per cent of Australia's total taxation revenue, whereas personal income taxes contributed 48 per cent and company taxes 19 per cent.[15] However, personal income tax will decline as a share of total tax revenue in line with Australia's aging population and company tax will be increasingly influenced by the volatility of global markets. Broadening the scope of the GST to capture high growth sectors will help offset these trends and allow the GST to provide a greater share of future tax receipts.

CORRECT FEDERAL-STATE FISCAL RELATIONSHIP

Queensland and Australia's productivity requires a correction of the current vertical fiscal imbalance, whereby the Commonwealth raises the majority of the revenue and the States spend the majority of the money. This vertical fiscal imbalance means there is disconnection between spending responsibilities and revenue raising capacity.

Correction of this imbalance would positively impact Queensland's productivity. It would ensure Queensland has sufficient revenue raising capacity, which would then allow inefficient taxes, such as payroll tax, duties and insurance levies to be abolished.

The full scope of Commonwealth-State fiscal relations needs to be investigated, including:

- reviewing the methodology for GST distribution to the States;
- reviewing the effectiveness of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations;
- improving institutional arrangements of the federation; and
- improving the future tax mix that would enable streamlining of inefficient State taxes.

CCIQ recommends that the Federal Government's White Paper on Federalism set out a progressive agenda for achieving sustainable fiscal relations across levels of government.

LOWER PERSONAL INCOME AND CAPITAL INCOME TAX

Provided the tax system becomes more efficient through broadening of tax bases and a correction of vertical fiscal imbalance, there will be scope to reduce tax on personal income and capital income.

A competitive personal income tax rate will help Australia attract the workforce talent needed to underpin productivity growth. Reducing the capital income tax will lower the cost of capital, which in turn releases capital for more productive use. This involves stimulating new business activity and encouraging productivity enhancing capital investment decisions that involve some degree of risk.

Over the long-term, reducing personal income and capital income tax will improve productivity by ensuring Australia and Queensland remains an attractive place to work, invest and do business.

Guiding Tax Reform Principles

Equity, economic efficiency, adequacy, transparency, low compliance and administration cost and anti-avoidance.

Source: CCIQ Thought Leadership 2011, Revitalising Australia's Tax System

ENCOURAGE FAIRER COMPETITION

Competition policy has proven to be effective in enhancing productivity. The peak in Australia's productivity growth coincided with the period in which National Competition Policy was being aggressively progressed and the reforms relating to infrastructure alone are estimated to have permanently increased Australia's GDP by 2.5 per cent.[16]

In competitive markets, firms have an incentive to improve their productivity performance or risk losing market share to their competitors and possibly being driven out of business. Policies can strengthen these incentives by establishing fairer competitive markets, facilitating greater private sector involvement in public services, and rewarding government-led productivity improvements.

CCIQ RECOMMENDS	SHORT TERM 1-2 YEARS	MEDIUM TERM 3-5 YEARS	LONG TERM 6-10 YEARS
Investigate benefits of privatising State owned assets	■		
Review existing legislation that restricts competition		■	
Introduce national productivity payments scheme		■	
Improve productivity of government agencies			■

INVESTIGATE THE BENEFITS OF PRIVATISING STATE OWNED ASSETS

Privatising State-owned electricity and transport assets can improve the competitiveness of these essential services, leading to lower prices and better quality service outcomes that will help raise the productivity of Queensland businesses.

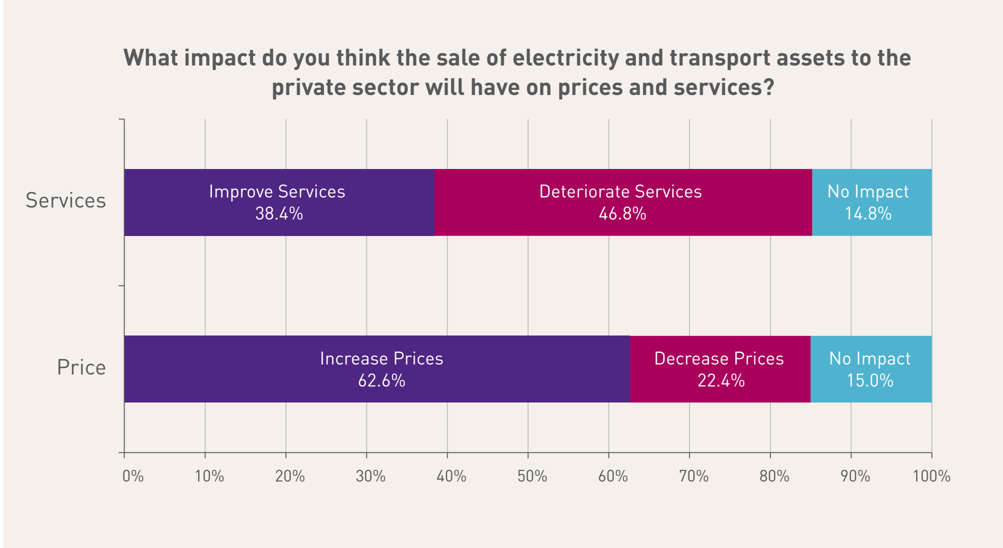
However, the process of privatisation needs to be well designed and implemented in a way that creates incentives for industry restructuring and actually results in improved performance. Queensland small businesses have indicated that prices and services are the most important considerations for them in determining their support for privatising State owned assets.

CCIQ recommends the process of privatisation:

- establish the long-term benefits on price and service outcomes via a rigorous public benefit test for each public asset being considered for sale;
- clearly explain how risks will be managed and accountability to end-users maintained;
- include an education campaign that allows the community to make an informed decision;
- outline how any sale proceeds would be used in the short-term to pay down government debt and in the medium to longer-term, to invest in infrastructure; and
- identify infrastructure priorities to ensure any proceeds of privatisation are allocated to those projects that will deliver the highest productivity gains.

If approached in this way, CCIQ believes the process for privatisation can have a direct, positive benefit on Queensland's productivity.

> "JUST BECAUSE FIRMS AND INDIVIDUALS CAN IMPROVE PRODUCTIVITY DOES NOT MEAN THEY WILL…FOR THIS THEY NEED INCENTIVES, PARTICULARLY THROUGH COMPETITION"
> – FRED HILMER



Source: CCIQ ReachTel Survey

REVIEW EXISTING LEGISLATION THAT RESTRICTS COMPETITION

CCIQ considers competition policy must be framed around small business needs to effectively create the incentives for productivity reform. This requires efforts by all levels of government to review regulatory frameworks across various sectors to ensure commercial activities are fair and support small business participation in the market.

Priorities for national competition policy include:

- clarifying the misuse of market power provision in the existing legislation to ensure all forms of anti-competitive conduct can be prohibited and penalties enforced;
- balancing considerations of market power against efficiency gains in assessments of mergers and acquisitions;
- enhancing the investigative powers of the Australian Competition and Consumer Commission to identify competition issues and better target responses;
- addressing complexity and unfair provisions in small business contracts; and
- facilitating new market entry and improving disclosure documents in the finance and insurance sectors.

At a state level, CCIQ believes the priorities are ensuring there is sufficient competition in the electricity and gas markets, progressing competitive reforms in the vocational education and training sector, and improving the mechanisms by which small business can compete for government procurement contracts. In addition, the Queensland Government must address the competitive anomalies in retail shop trading hours and licensing laws in the hospitality industry to support small business productivity growth.

Local governments have a role in ensuring local planning schemes that set out land uses and development application processes do not create barriers to entry or disadvantage small business. Local government commercial activities must also be assessed to ensure competitive neutrality with private sector operators.

INTRODUCE NATIONAL PRODUCTIVITY PAYMENTS

A national productivity payment scheme would provide financial incentives for state governments to introduce productivity reforms.[17] Given the current fiscal constraints of the Federal Government, this new payments scheme would need to be developed over the medium-term with careful design through a new Council of Australian Government (COAG) agreement.

Current efforts to improve productivity through the COAG Seamless National Economy reforms do not seek a net improvement in regulatory efficiency. Instead, the focus is on harmonisation across borders which benefit a limited number of businesses that operate in more than one jurisdiction. The whole agenda has lost a sense of urgency with many of the timeframes extending out past their original deadlines. Full implementation of 17 of the 27 Seamless National Economy reforms could in the longer run provide cost reductions to business of around $4 billion per year and increase GDP by nearly one half of a per cent (around $6 billion per year), but only $143 million of the benefits have been realised thus far. [18]

CCIQ considers a new productivity payments scheme is needed to speed up the pace of reform. The financial incentives need to reward competition and regulatory reforms, including red tape initiatives that directly benefit small and medium businesses.

IMPROVE PRODUCTIVITY OF GOVERNMENT AGENCIES

Given the scale and scope of public sector services, any efficiency savings will have a significant positive impact on the productivity of Australia and Queensland's economy. Currently, public sector productivity is lagging the private sector. This gap between private sector and public sector productivity is costing tax payers $2.4 billion annually. [19]

While there are unique aspects of the public sector costs like policy development, consultation and accountability, there should still be a concerted effort to measure and improve productivity.

CCIQ believes improved public sector productivity can be realised by:

- refocusing government agencies on core responsibilities for designing and implementing policy that delivers the greatest net benefit, and less on service provision;
- broadening contestability of government services to foster meaningful benchmarks against alternative providers and increase transparency of service costs;
- outsourcing services, where appropriate, via competitive tendering to maximise return on investment and increase the diversity of service providers;
- adopting a customer focus approach so the desired public service outcome matches community preferences and provides equity of access;
- establishing a whole-of-government framework to measure and report on productivity; and
- encouraging better leadership and performance management systems within government agencies to action productivity initiatives.

Ultimately, a behavioural change is required if public sector productivity improvements are to contribute to an overall productivity growth strategy. The right types of competitive incentives can motivate change in government agencies to assess their own performance, continuously seek out efficiency savings and discover how best to engage with external service providers.

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Chamber of Commerce & Industry Queensland
375 Wickham Tce, Spring Hill QLD 4000
Telephone 1300 731 988