



# 2018-19 STATE BUDGET SUBMISSION

Queensland Treasury

▼ CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

6 April 2018

## Introduction

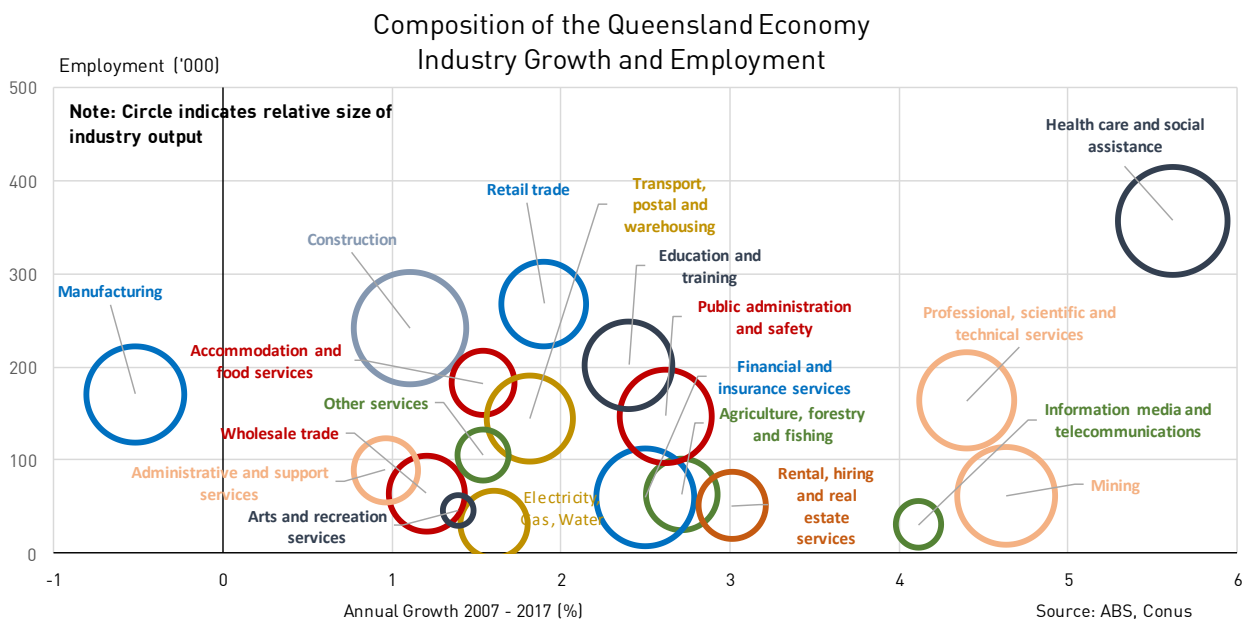
1. The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide comment to the Treasurer and Queensland Treasury on the State Budget 2018/19 (the Budget).
2. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 426,000 Queensland businesses on local, state, and federal issues that matter to them. Our guiding focus is to develop and advocate policies that are in the best interests of Queensland businesses, the Queensland economy, and the Queensland community.

## Overall Position

3. State Budget fundamentals are a key determinant of business confidence. As the peak association for employers across Queensland, the CCIQ believes the 2018-19 State Budget must be a budget that lifts and sustains small business confidence and provides stable fiscal and economic policy to ensure businesses continue to invest and employ in Queensland.
4. The challenges facing Queensland's economy are diverse, but the current and emerging opportunities for businesses are also varied, particularly in sectors such as the service and visitor economics, advanced manufacturing, health and defence. For Queensland businesses to best take advantage of such opportunities, they need to be operating in a cost competitive environment with access to world class infrastructure and skills.
5. There are several State Government policies that will benefit small businesses in Queensland and align with CCIQ's current suite of initiatives, providing opportunity for collaboration. In tandem to these, Queensland's small business community urges the State Government to introduce the following recommendations to provide a boost to small business and spur economic activity across Queensland.
6. This submission key economic levers to boost Queensland's small business operating environment. The aim of the recommendations herein is to address CCIQ's six key priority areas:
  - a. Increasing small to medium enterprise digital capacity;
  - b. Ensuring access to procurement opportunities;
  - c. Reducing business operating costs;
  - d. Streamline and reduce red tape;
  - e. Simplify the tax system;
  - f. Invest in skills needs and workforce development; and
  - g. Deliver productive infrastructure.

## State of Economy

7. CCIQ believes the outlook is bright for the state economy with growth accelerating and becoming broader based. After several years lagging the rest of the nation, Queensland's economy has turned the corner and is set to outpace national growth in the coming years.
8. In particular, CCIQ is encouraged by the strong level of population growth, with the latest data indicating a large number of inter-state migrants arriving from the southern states.
9. Employment growth is strong, investment is rising, commodity prices remain high and most importantly, our Pulse survey reveals business confidence is rising.
10. However, the outlook also contains many headwinds. Exporters face uncertainty with global trade and tariff wars threatening to impact Queensland's major trading partners.
11. Domestically, the residential construction cycle has peaked and wages growth remains slow which continues to dampen retail spending. Due to the strong level of population growth (and rising workforce participation), the State needs continued strong employment growth just to keep the unemployment rate steady.
12. In light of this delicate position, the budget should look to introduce initiatives to support businesses to face-off potential headwinds, and increase small business growth.



## State Budget 2018-19 Small Business Priorities

13. As the recognised voice for business in Queensland, CCIQ constantly communicates with members and the broader business community to ensure our advocacy speaks to their collective needs. The following recommendations for the 2018-19 State Budget are what Queensland small businesses most need the State Government to act upon and invest in.
14. CCIQ implores the Queensland State Government to carefully consider the recommendations contained herein and closely consider the legacy they want to leave for Queensland. The first State Budget of a re-elected majority Palaszczuk Government is a chance to set the vision for Queensland's economy, and the foundations for our economic trajectory.

## **Taxation**

13. A competitive tax system is fundamental to creating a thriving and prosperous community. CCIQ believes the long-term goal is to pursue holistic tax reform in conjunction with the Federal Government to eliminate inefficient taxes and reduce the drag on economic activity.
14. In the interim, the most important priority for Queensland's business community is a firm commitment to no new or increased taxes or charges on business during this term of Parliament.

### **Recommendations:**

- i. Lift the payroll tax threshold from \$1.1 million to \$1.5 million to create more than 2,000 jobs in the private sector.
- ii. Progressively lift the threshold by increments of \$100,000 to \$2 million over 5 years, at which time payroll tax should be abolished.
- iii. Provide funding to employers who employ STEM PhD graduates as part of a designed program that includes ongoing collaboration with their university.
- iv. Re-commit to the payroll tax exemption for wages paid to apprentices and trainees, and expand this successful initiative to cover other areas of such as regional youth unemployment.
- v. Introduce a transfer duty exemption when a genuine business restructure takes place to bring Queensland in line with other States and Territories.
- vi. Commit to no new taxes or charges on business in this term of government.
- vii. Ensure Queensland maintains its share of GST revenue in accordance with the principles of Horizontal Fiscal Equalization (HFE).
- viii. Lobby the Federal Government to re-commence the Tax White Paper process to ensure the prioritization of holistic broad-based tax reform at the national level.

## **Public Sector**

15. In 2016-17, the Queensland Government spent almost 40 per cent of total expenditure on public service wages which, if it were to grow at the same pace, will see the State face a financially unsustainable public service in the next few years.
16. The recent ABS survey of public-sector employment showed Queensland had topped all other States and Territories when it came to hiring the most number of new staff and paying the highest salaries/pay rises. While in the past two years overall headcount rose 8.1 per cent, the salary bill saw an increase of over 14 per cent.
17. Increasing the public sector must correlate to improved public sector productivity, efficiency and effectiveness. This may include public sector modernisation and service delivery improvements through digitalisation.

### **Recommendations:**

- i. Commit to an independent review of the Queensland Public Service to assess how the functions and operations of the public sector can be optimized at least cost to the taxpayer.
- ii. Address the significant gap in the growth between public and private sector wages by imposing a moratorium on Queensland public sector wage increases until the gap is at a more appropriate level.
- iii. Establish an independent Budget Oversight Unit to make recommendations on government savings decisions, track progress towards achieving AAA credit rating, and cut red tape.

## Infrastructure

18. A lack of infrastructure investment is holding back the potential of the Queensland economy. Public infrastructure investment is at decade long lows, and going forward we will require private sector involvement to help secure funding for projects
19. While transport infrastructure remains a priority, infrastructure investment in all our major services is required. The scope of infrastructure projects needed across Queensland ranges from water, energy, health, recreation and tourism to rail, roads, ports and digital networks.
20. Investment in projects across all these sectors will lead to quality infrastructure that boosts economic activity, lifting standards of living across Queensland.

### Recommendations:

- i. Balance the need for growth-proof infrastructure in South East Queensland with delivering a world-class capital works program for Queensland's regions.
- ii. Facilitate regional 'City Deals' to create a long-term model that will secure sustainable investment, attract investors, and revitalize our regional centres.
- iii. Ensure regional infrastructure requirements are not overlooked and that various regional priority projects are appropriately funded over the forward estimates.
- iv. Re-commit to the 'Building Our Regions' Fund.
- v. Prioritise road, electricity and telecommunications projects which will increase productivity for businesses.

### Funding options for infrastructure investment

#### Recommendations:

- i. Public Private Partnerships (Utilization of Market Led Proposals).
- ii. Sale / Lease Back Arrangements (i.e. sell underutilized state-government assets to be leased back from private sector to save on capital works. program. Divert savings in capital works program to new infrastructure projects.)
- iii. Build new infrastructure with the caveat that infrastructure will be sold to the private sector within a defined timeframe.
- iv. Sale of Future Rights (i.e sell to the private sector the 'option rights' to build future specific infrastructure).
- v. Negotiate with the Commonwealth for more funding of major projects.
- vi. Infrastructure Efficiency Fund - efficiency dividend applied to all portfolios to fund major infrastructure projects.

## Energy

21. Rising electricity costs are a pain point for many businesses. Despite some intervention, Queensland small businesses are experiencing historically high electricity prices. Placing downward pressure on electricity prices must be a key focus of the 2018-19 State Budget.

### **Recommendations:**

- i. Set prices for Queensland networks at efficient levels by reducing the Regulated Asset Base in line with independent research undertaken by the ACCC.
- ii. Remove the competitive neutrality charge from Queensland networks due to State Government monopoly control.
- iii. Pledge to continue funding the Solar Bonus Scheme as a charge to consolidated revenue for the remainder of the scheme as an extension of the Powering Queensland Plan.
- iv. Support the introduction of the five-minute settlement period into the Queensland jurisdiction of the National Energy Market.
- v. Commit to working closely with energy stakeholders to ensure efficient tariff design which reflect small business demand and usage profiles.
- vi. Issue a permanent and enduring direction to both Stanwell Corporation and CS Energy to undertake strategies to place downward pressure on electricity prices.
- vii. Release the Queensland Gas Action Plan to be implemented under the Powering Queensland Plan.
- viii. Commit, and align policy where relevant, to supporting Federal Energy policy initiatives, such as the National Energy Guarantee, to ensure national policy certainty and break investment stagnation.
- ix. Open to tender Public Private Partnership opportunities for Hydro generation infrastructure in Northern Queensland to create dispatchable, renewable energy capacity, while ensuring water security as a part of the Powering North Queensland plan.
- x. Commit to an inquiry to investigate the benefits and viability of a contestable retail market in regional Queensland, with the aim to put downward pressure on prices, increase service levels, and reduce government community service obligation subsidies in the long term.
- xi. Commit to funding ecoBiz which assists Queensland small businesses reduce their energy demand, increases efficiency and reduces operating costs. Further opportunities should be explored to reward star partners of the program as small business creates industry best practice.



## **Skills and Training**

22. Queensland's labour market will be fundamentally reshaped by technological advances and economic challenges over the next two decades. There is a very real risk of being left behind both nationally and internationally if we do not embrace progressive reforms in education and training to better prepare ourselves.
23. Queensland already faces a number of unique workforce challenges compared to our state counterparts. Aside from Tasmania, Queensland has the lowest proportion of 15-75 year olds with bachelor degrees or above. The youth unemployment rate in Outback Queensland is the highest in the nation.
24. In CCIQ's 2016 'Transitioning Queensland's Workforce' report, it was found that 40 per cent of businesses believe they will experience difficulty finding employees suitable for high level jobs. Furthermore, 1 in 2 businesses have faced a need to provide literacy and numeracy training for their employees.
25. In order to maintain our living standards and growth in income, Queensland will essentially need to produce "more with less", utilising our skills and intellectual resources more efficiently.

### **Recommendations:**

- i. Incentivize greater cooperation between the Department of State Development and the Department of Employment, Small Business and Training to implement a Workforce Development and Planning model approach, with focus on workforce development and addressing future skills needs in Queensland's regions.
- ii. Review Queensland's current training system to identify areas for improvement to ensure training meets industry demand and skills needs.
- iii. De-risk businesses when taking on an apprentice and/or trainee through providing more attractive incentives and reduce the red tape associated with taking on an apprentice and/or trainee.
- iv. As a result of a transitioning economy, changes to notions of the traditional workplace, and the gig economy, ensure funding is committed to revamping Queensland's secondary school curriculum with a greater focus on entrepreneurship, business acumen, and innovation.
- v. Continue with successful programs such as Back to Work and Skilling Queenslanders for Work.
- vi. Invest in education in areas targeting entrepreneurship, particularly in linking universities with small business incubators to generate new businesses.

## Trade

26. It is critical to the future success of Queensland's economy that small and medium businesses are optimally placed to access global markets. As Australia's domestic consumer market is relatively small, the overwhelming benefits of accessing a larger customer base in the global economy are clear.
27. Despite this, small businesses face unique barriers when seeking out global opportunities. Those challenges can be logistical, such as getting product to market from relative geographical isolation or can be domestic barriers that impact the overall competitiveness of our local small businesses in the global marketplace.
28. For Queensland business to penetrate and exploit international markets, business calls on government to develop a multi-pronged approach to policy development that is tailored to small business needs.

### **Recommendations:**

- i. Conduct a review of overseas trade representation and the need to have dedicated Queensland offices where there is existing Austrade offices to lower costs.
- ii. Ensure strategic bi-lateral trade partnerships are effectively pursued, with investment in trade representation in overseas nations whose economies require Queensland business. This includes China, Japan, the United States and the Middle East.
- iii. Work with the Federal Government to ensure small businesses are afforded every opportunity to capitalize on Australia's existing and future free trade agreements.
- iv. Support government trade missions to maintain Queensland's reputation as a high-quality producer of goods and services and further promote the capabilities of Queensland small businesses to overseas markets.
- v. Facilitate greater linkages between Queensland businesses and their overseas partners, and achieve better harmonies between business and government in attracting investment to Queensland
- vi. Improve connectivity across a broad range of channels including integrated infrastructure planning of ports, roads, and rail, improved communications infrastructure to ensure digital access to market.
- vii. Achieve greater linkages between business and government when seeking out market opportunities overseas through the implementation of a local and state chamber network to act as the conduit between business and government.
- viii. Better education for small businesses looking to export to reduce the apprehension associated with entering new markets.
- ix. Greater investment in infrastructure, particularly in regional Queensland, to ensure cost-effective product routes to market.

## **Small Business Growth**

29. Promises by the Queensland Government in the lead up to the last State Election looked to address the challenges around economic and small business growth, both nationally and internationally. For example, the re-elected State Government committed to an extension of the Skilling Queenslanders for Work policy and a further \$93 million into the Advance Queensland initiative.
30. There were initiatives and funding promises around key priorities for SMEs such as delivering infrastructure projects, acting to reduce escalating power prices, removing red tape and providing access to essential skills training to address shortages, particularly in regional Queensland.
31. While the announcements made in late 2017 were encouraging, if policies fail to continually evolve in line with the needs of SMEs, then Queensland's growth forecasts will grind to a halt.
32. Small businesses across the State need the confidence to take risks and sustainably grow, and are looking to the State Budget for the details on how these strategies and projects are going to be delivered in practice.

### Red Tape

33. Growing Queensland's economy means growing Queensland's small businesses. Unfortunately, many businesses cannot capitalise on the vast opportunities afforded in the new global economy, or worse yet fail, due to the amount and complexity of red tape they must frequently tackle.
34. Through CCIQ's bi-annual Red Tape Survey 2017, it was found that businesses in general expressed strong dissatisfaction around their dealings with government when it came to red tape. Seven in 10 businesses believe there to be a moderate to major impact on their business in needing to comply with government regulatory requirements.
35. Furthermore, more than half of businesses saw an increase in the overall cost of complying with government regulations in the past two years. In terms of the time impost, only 1.9 per cent of businesses believed the time they take on managing compliance had decreased over the past two years.
36. Nearly half of all businesses rate the Queensland Government on its consultation and engagement with businesses prior to the introduction of new regulation and legislation as poor or very poor.
37. The following recommendations are focused on ways in which the government can reduce and streamline red tape, as well as implement programs to promote small business growth.

**Recommendations:**

- i. Facilitate customer and market research to enable small businesses to assess new geographic markets, consumer spending patterns, market segments, as well as to benchmark and compare industry-specific balance sheets against other similar businesses.
- ii. Alongside streamlining the application process, government must prioritise transparent and open procurement data so genuine SME's in Queensland are awarded government contracts.
- iii. Consider a public procurement target for small business participation, similar to the one adopted in the UK of "one pound in every three by 2020".
- iv. Improve the digital capacity of small businesses, particularly those in rural and regional Queensland, by increasing the knowledge and skills around digital tools to support use and take-up.
- v. Engage local governments to take direct measures to assist small businesses in their Council area, such as in licensing, planning approvals, procurement, hosting workshops and networking opportunities.
- vi. Continue to work with the Federal Government to strengthen the legal system around property rights, contract law, intellectual property and bankruptcy so small businesses have the confidence to 'give it a go'.
- vii. Work with the Federal Government to expedite registering and setting up a business, including linking State and Federal processes into the one portal, taking lessons from the New Zealand system which averages just half a day and only one official procedure to register a business.
- viii. Address the funding gap for small businesses so they are able to access affordable capital, as well as local solutions that adequately supports the growth of start-ups and existing businesses.
- ix. Destigmatise business failure as countries that do so experience higher rates of business start-ups, and the failure rate of second start-ups is much lower.
- x. Identify the red tape 'hotspots' where regulatory reform efforts are prioritised to effectively reduce compliance burden and unlock greater economic activity. This could include specifically looking at growing and/or new industries.
- xi. Undertake a Business Impact Statement (BIS) when introducing new legislation to explicitly consider the impact on competition and the resulting costs on businesses.
- xii. Attach a sunset clause to new regulation with no more than a five-year timeframe to force a review or reform of legislation and avoid red tape continuing to exist by default.
- xiii. Reduce delays in approvals by prescribing timeframes for government assessment and implement a system of "implied approval" should such time lapse.

38. If you wish to discuss any of the contents contained herein in further detail, please contact Kate Whittle, General Manager – Advocacy at [kwhittle@cciq.com.au](mailto:kwhittle@cciq.com.au).