



7 March 2008

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Dear Stephen

Re: Senate Select Committee on State Government Financial Management

As the State's peak business organisation, Commerce Queensland welcomes the opportunity to participate in the Senate Select Committee Inquiry on State Government Financial Management.

On behalf of the Queensland Business Community it is with pleasure that I enclose a copy of Commerce Queensland's 2008-2009 State Budget Submission and 'The Role of Government in Queensland' for your consideration.

These reports will greatly aid the Senate Select Committee's consideration of appropriate State Government Financial Management from a business perspective. Key points from each of these representations are summarised within this submission for the Senate Committee.

Commerce Queensland

By way of background Commerce Queensland is the State's largest business organisation. It has a state-wide membership across all industry sectors. In total we represent in excess of 25,000 businesses - 3,700 members spread across the State with links to 135 local chambers of commerce and 60 industry associations. We are extremely well placed to provide expert commentary on State Government financial management issues and a full membership profile is attached.

Economic Background

This Inquiry is taking place in an economic environment that has changed dramatically during the past several months. Commerce Queensland's latest Pulse Survey of Business Confidence (for the December Quarter 2007) revealed a significant deterioration in business confidence as measured by the 12 month outlook for both the Queensland and National economies.

This downturn is attributed by businesses to the ongoing prospect of higher interest rates, inflationary pressures, increasing global economic instability, rising fuel costs and uncertainty associated with changes in workplace relations laws. This economic downturn will impact on budget receipts if no action is taken by the Queensland State Government.

Member of



Incorporating



State Government Financial Management Principles

Commerce Queensland advocates the following interacting fiscal strategies as the framework to achieve a healthy sustainable Queensland economy. The overriding Government principle must be the management of the State's finances in a fiscally responsible manner. This principle must be adhered to whilst also pursuing the following budget principles which are in order of Commerce Queensland priority:

- **Taxation:** To have a business tax regime which is the most competitive of all States that promotes growth and encourages participation.
- **Infrastructure:** To ensure that essential public infrastructure is maintained on a sustainable basis at a level which will encourage economic development and that maximises use of the private sector.
- **Charges by Public Utilities:** To ensure that charges imposed by public utilities (water, energy, ports etc) are the most competitive of all States.
- **Government Services:** Provision of the range and level of Government Services which meet reasonable community expectations at a cost consistent with best practice.

State Budget Submission

Commerce Queensland's 2008-09 State Budget Submission was prepared as a blueprint document for the economic development of the Queensland economy. In summary Commerce Queensland encourages fiscal responsibility and the enhancement of a competitive business operating environment within Queensland. Commerce Queensland urges that the Queensland State Government continue on a path of responsible economic management and pro-business policy settings. It is important that the State Government:

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

The challenge for the Queensland Government is to maintain its commitment to sound economic and financial management, while continuing to build on investing in growth and competitiveness. The Queensland State Government will need to carefully manage its financial position in order to help ensure future budgets retain the ability to respond to changes in the economic climate and continue to implement policies supportive of growth.

Key points raised within the Submission that we draw the Select Committee's attention to include:

- Commerce Queensland believes the change of Federal Government provides a significant opportunity for major economic and financial reform in Australia. Coupled with all State Labor Governments there is a one off opportunity to fix some of the vexing issues that are confronting Australia's Federation. An opportunity has now been presented for the Federal and State Governments to undertake major economic reforms in 2008 that can directly benefit the Queensland business community. Any agenda must include the Commonwealth / State financial relationship and the issue of Payroll tax. Commerce Queensland expects clear actions and accountability in focusing on growing the Queensland economy from both the Federal and Queensland Governments. Neither the State nor Federal Government has any excuse in not cooperating to reach outcomes that will promote economic growth and appropriate service levels for Queensland.
- The Queensland State Government has overseen a strong and vibrant Queensland Economy that has delivered a robust revenue base.

State Taxation Revenue									% Increase	
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	\$ Increase	00-01 to 07-08
Payroll Tax	\$1,170	\$1,202	\$1,334	\$1,479	\$1,674	\$1,917	\$2,175	\$2,411	\$1,241	106.1%
Stamp Duties										
Transfer	\$700	\$1,056	\$1,382	\$1,863	\$1,744	\$1,963	\$2,450	\$2,842	\$2,142	306.0%
Vehicle registration	\$167	\$184	\$234	\$271	\$267	\$269	\$285	\$385	\$218	130.5%
Insurance	\$206	\$238	\$286	\$315	\$316	\$328	\$366	\$393	\$187	90.8%
Mortgage	\$103	\$144	\$183	\$251	\$256	\$297	\$345	\$300	\$197	191.3%
Other duties	\$119	\$106	\$96	\$132	\$60	\$73	\$25	\$14	-\$105	-88.2%
Total Duties	\$1,294	\$1,728	\$2,182	\$2,832	\$2,642	\$2,930	\$3,471	\$3,935	\$2,641	204.1%
Gambling Taxes and Levies	\$522	\$568	\$638	\$726	\$806	\$841	\$826	\$868	\$346	66.3%
Land Tax	\$230	\$231	\$279	\$313	\$419	\$404	\$523	\$622	\$392	170.4%
Debts Tax	\$207	\$200	\$191	\$191	\$189	\$0	\$0	\$0	-\$207	-100.0%
Motor Vehicle Registration	\$558	\$596	\$649	\$703	\$767	\$819	\$865	\$900	\$342	61.3%
Fire Levy	\$185	\$192	\$203	\$213	\$225	\$239	\$252	\$264	\$79	42.7%
Community Ambulance Cover	\$0	\$0	\$0	\$96	\$112	\$118	\$123	\$128	\$128	
Other Taxes	\$620	\$98	\$122	\$123	\$119	\$127	\$140	\$144	-\$476	-76.8%
Total Taxes	\$4,786	\$4,815	\$5,598	\$6,676	\$6,952	\$7,396	\$8,375	\$9,272	\$4,486	93.7%
Consumer Price Index - Brisbane	132.4	136.3	140.7	144.8	148.5	153.2	158.3	162.6		22.8%

Dollar values in millions and in current prices

Source: ABS Catalogue 6401.0 and Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

- Payroll tax receipts since 2000-01 have increased by over \$1.2 billion or 106%.
- Land tax receipts since 2000-01 have increased by over \$390 million or 170%.
- Stamp duties since 2000-01 have increased by over \$2.6 billion or 204%.
- Total state taxation receipts since 2000-01 have increased by over \$4.4 billion or 94%.

Queensland Treasury explanations for these massive increases include strong growth in land values; growth in employment and wages with particular strength in industries such as construction, mining and property and business services; and continued strength in housing and non residential property transactions. This represents a very high and growing level of reliance on businesses to fund State Government services. Queensland business is understandably alarmed by this trend. Queensland needs a state tax system that does not penalise employers for expanding their contribution to the Queensland economy. Business acknowledges and accepts that certain levels of taxation are necessary to ensure the provision of social and business services throughout the State. Increasingly sourcing State revenue from Queensland businesses revenue has eroded the State's international and national competitiveness over recent years.

- The State Government has received unexpectedly larger returns from various State taxes and has an obligation to reinvest some of this windfall into the future growth of the State. These greater than expected taxation receipts have repeatedly been received for the past three years. Considerable further increases in receipts for 2007-2008 are also anticipated. Receipts from business taxes in particular have led to greater taxation receipts than expected. Over the past three years the State Government has received above their own forecasts an additional:

- \$440 million in payroll tax receipts or a 8.5% windfall;
- \$1.2 billion in stamp duties or a 16% windfall;
- \$36 million in land tax or a 3.0% windfall; and
- \$318 million in GST revenue or a 1.4% windfall and \$1.2 billion from the C/W or a 3.2% windfall.

State Taxation Revenue	2004-05			2005-06			2006-07			3 Year \$ Windfall	Ave 3 Year % Windfall
	Budgeted	Actual	% Difference	Budgeted	Actual	% Difference	Budgeted	Actual	% Difference		
Payroll Tax	\$1,505	\$1,674	11.2%	\$1,767	\$1,917	8.5%	\$2,054	\$2,175	5.9%	\$440	8.5%
Stamp Duties											
Transfer	\$1,438	\$1,744	21.3%	\$1,582	\$1,963	24.1%	\$2,116	\$2,450	15.8%	\$1,021	20.4%
Vehicle registration	\$246	\$267	8.5%	\$259	\$269	3.9%	\$279	\$285	2.2%	\$37	4.8%
Insurance	\$307	\$316	2.9%	\$332	\$328	-1.2%	\$346	\$366	5.8%	\$25	2.5%
Mortgage	\$205	\$256	24.9%	\$237	\$297	25.3%	\$310	\$345	11.3%	\$146	20.5%
Other duties	\$85	\$60	-29.4%	\$76	\$73	-3.9%	\$26	\$25	-3.8%	-\$29	-12.4%
Total Duties	\$2,281	\$2,642	15.8%	\$2,487	\$2,930	17.8%	\$3,078	\$3,471	12.8%	\$1,197	15.5%
Gambling Taxes and Levies	\$806	\$806	0.0%	\$892	\$841	-5.7%	\$881	\$826	-6.2%	-\$106	-4.0%
Land Tax	\$379	\$419	10.6%	\$431	\$404	-6.3%	\$500	\$523	4.6%	\$36	3.0%
Debts Tax	\$190	\$189	-0.5%	\$0	\$0		\$0	\$0		-\$1	-0.2%
Motor Vehicle Registration	\$720	\$767	6.5%	\$793	\$819	3.3%	\$846	\$865	2.2%	\$92	4.0%
Fire Levy	\$224	\$225	0.4%	\$232	\$239	3.0%	\$247	\$252	2.0%	\$13	1.8%
Community Ambulance Cover	\$104	\$112	7.7%	\$112	\$118	5.4%	\$121	\$123	1.7%	\$16	4.9%
Other Taxes	\$128	\$119	-7.0%	\$130	\$127	-2.3%	\$144	\$140	-2.8%	-\$16	-4.0%
Total Taxes	\$6,338	\$6,952	9.7%	\$6,843	\$7,396	8.1%	\$7,871	\$8,375	6.4%	\$1,671	8.1%

Dollar values in millions and in current prices

Source: Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

Whilst clearly recognising the difficulty in forecasting revenue receipts Queensland Treasury must endeavour to become more accurate in their forecasting and / or deliver some of these windfalls back to the business community. In light of these outcomes it would not be unreasonable for the Queensland State Government to hand back some of this windfall to the business community.

- The Goods and Services Tax is a growing revenue stream which has already created greater flexibility in meeting various State Government funding priorities. According to Commonwealth Treasury the Queensland State Government is receiving significantly higher than anticipated taxation receipts delivered by the GST. GST revenue since 2000-01 has increased by over \$3.7 billion or 80% with total Australian Government payments to Queensland increasing by over \$5.8 billion or 65%. The introduction of the GST had the goal of replacing many of the inefficient State taxes levied on businesses. While the scope of the GST fell short of what was originally intended, over time revenue from the GST has risen above expectations and can be used to fund tax initiatives replacing existing business taxes.

Commonwealth Revenue	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	% Increase	
									\$ Increase	00-01 to 07-08
GST Revenue	\$4,658	\$5,019	\$5,890	\$6,515	\$7,354	\$7,773	\$8,053	\$8,384	\$3,726	80.0%
NCC Payments	\$73	\$148	\$139	\$88	\$143	\$179	\$0	\$0	-\$73	-100.0%
Specific Purpose Payments	\$3,637	\$3,947	\$4,115	\$4,359	\$4,730	\$5,039	\$5,729	\$6,348	\$2,711	74.5%
Total Australian Government Payments	\$8,909	\$9,638	\$10,182	\$10,962	\$12,228	\$12,991	\$13,782	\$14,732	\$5,823	65.4%
Consumer Price Index - Brisbane	132.4	136.3	140.7	144.8	148.5	153.2	158.3	162.6		22.8%

Dollar values in millions and in current prices

Source: ABS Catalogue 6401.0 and Queensland State Budget Papers, Budget Strategy and Outlook, Budget Paper No.2

- The Queensland State Government plainly has a great deal of flexibility to pursue significant business tax initiatives. Rather than channelling these excess funds entirely into social and infrastructure initiatives the State Government should commit at least some of the consolidated funds into creating an incentive for business to deliver greater economic dividends to the State.
- The Queensland Government under the terms of the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations committed itself to review the need for inefficient stamp duties, including those applied to non residential conveyances, leases, credit and rental arrangements, and unquoted marketable securities. Commerce Queensland acknowledges that the State Government has removed some duties, in accordance with the Intergovernmental Agreement. However, reform of duties to date has not focused on taxes that inhibit economic growth. Taxes and duties that remain in place must now be reviewed in detail, and include extensive public consultation with the aim of eliminating those that are detrimental to the competitiveness of businesses in Queensland.
- Infrastructure is critical to Queensland's continuing economic growth and has a critical role in determining the relative competitiveness of the State. A lack of forward planning and investment in Infrastructure by successive Governments has left Queensland unable to meet the demands of a growing population and a strong economy. It is essential that the State's transport and infrastructure network is capable of meeting the needs of Queensland businesses both now and into the future. However Commerce Queensland is encouraged by the recent significant increase in investment in key assets (eg. energy, transport and water supply) with the announcement of over \$14 billion in infrastructure development as part of the 2007-2008 State Budget and \$82 billion over the next 20 years as part of the South East Queensland Infrastructure Plan.
- The Queensland business community acknowledges that the Government is best positioned to develop an integrated infrastructure plan for Queensland and its regions. However Commerce Queensland considers that the private sector must be involved in delivering the required assets. The private sector has the potential to deliver significant benefits including improved quality at lower cost. In other jurisdictions of Australia, the private sector has successfully delivered essential infrastructure and services for Government including schools, hospitals, health services, electricity supply and roads. There are a number of mechanisms that the Queensland State Government could use to facilitate increased participation by the private sector, including privatisation, contracting out, the use of public-private partnerships, competitive tendering and allowing the private sector to construct/use its own assets. Of central importance is the fact that the rate of spending necessary for continued infrastructure investment and development in Queensland will not be sustainable without using the Private Sector. Greater private sector

involvement will diversify and enlarge the pool of funds available to finance the construction and maintenance of infrastructure, enabling some projects to be brought forward and completed earlier than otherwise would have been the case. The utilisation of private sector participation in the provision of essential infrastructure will inevitably lead to an improvement in Queensland's building industry, investment growth and employment opportunities.

- With the State's excellent credit rating and record Commonwealth funding, the State Government's capacity to borrow and service debt for new borrowings for capital infrastructure has never been better. With Queensland's public debt also at historically low levels, it is now time for Government to retreat from fiscal conservatism and reshape public policy regarding investment in State infrastructure and its management. Queensland should increase public sector borrowing to finance much-needed capital for infrastructure. The use of debt financing for key infrastructure investment projects will generate long-term benefits for the State and will become the keystone to support greater economic and social prosperity. However Commerce Queensland continues to support the notion of running a budget surplus over the course of the economic cycle.
- The Queensland State Government should actively consider alternative financing mechanisms to free itself from direct investment in costly infrastructure through mechanisms such as Private Public Partnerships (PPPs). The advantages of PPPs for selected infrastructure are that they invite and encourage private sector investment, and ensure that the user pays principle applies to appropriate infrastructure.
- The Queensland State Government must continue to monitor and seek out efficiencies in government department program delivery. Due to the dominance of the public sector in the economy, the efficiency and effectiveness of government is essential if productivity is to improve across the economy. Anything short of optimum efficiency in the delivery of public services means that taxpayers are paying more in taxes and charges than they would otherwise need to. Strong efforts must be made to ensure the growth in departmental operating expenses does not rise unchecked. Duplication and inefficiency in the government sector results in an unnecessary taxation burden on business. An improvement in the efficiency of Queensland State Government Agency service delivery offers significant scope for enhanced budget flexibility that can be directly used to fund taxation initiatives.
- Recent Queensland State public sector employment trends are of concern. Commerce Queensland supports the need for a small, flexible, highly skilled public sector with the knowledge and capacity to work cooperatively and engage with the business. The current size of the public sector is not optimal, and can place unnecessary pressure on private sector wages and the ability to attract skilled labour. Indeed the Queensland State Service has grown by 15.3% since February 2000 and on a number of persons per State Government Employee basis is clearly over governed compared to New South Wales, Victoria and the National Average.

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUS
Number of Persons per State Government Employee	17.3	18.9	15.8	15.2	15.0	13.4	10.6	17.9	16.7
ABS Catalogue 6248.0.55.001 & 3101.0									

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

The Role of Government in Queensland

'The Role of Government in Queensland' was commissioned by Commerce Queensland and was prepared by respected economist Des Moore in May 2006. The Report presents the policy approach needed to achieve improvements in service delivery, economic growth and community confidence in the Queensland State Government. Key findings of the Report include:

- The Queensland Government faces a serious deterioration in its Budget position over the next few years unless it draws on the strengths of the private sector.
- The Queensland State Government would benefit significantly by accepting the challenge of developing a larger role for the private sector in Queensland.

- If the Queensland State Government takes the lead in Australia by making Queensland renowned for being the most attractive to private investors, it would have considerable potential for improving the economic and social wellbeing of the wider Queensland community.
- There is scope for a substantial increase in the proportion of 'traditional' government services provided by the private sector.
- A shift towards private sector provision of such services would lead to a reduced need for government expenditure and a subsequent reduction in taxes, creating a more robust business environment.
- Over a period, taxes could be reduced by \$1-1.5 billion - about 15 to 20 per cent of existing state taxation, enhancing Queensland's reputation as a low tax state.
- All too often the Queensland Government claims that existing federal-state relationships prevent it from implementing reforms. However there is much that can be done within existing arrangements.

Key recommendations listed in the Report include:

- Adoption of the purchaser/provider model recommended by the 1996 Audit Commission, including contracting out the deliveries of an increasing proportion of existing government services.
- A major program of lower taxes financed by savings from an enhanced private sector role in providing services and by reducing less critical expenditures and allocations for 'general public services' which are well above the all-states' average.
- There would be further savings from reducing the number of departments, by amalgamating those with similar functions, and by minimizing duplication and inefficiencies. Some of these changes would also encourage business investment to Queensland.
- A clarification of policies on the private sector's role in 'public' investment, including that public-private partnerships and/or contracting out will be used wherever practicable and efficient and that most of the \$22 billion of public corporation assets will be sold.
- A major program of reduced regulation of businesses.

Additional Considerations for the Select Committee

Commerce Queensland believes that the Select Committee on State Government Financial Management should as part of this Inquiry also recognise the vital role that the State Government plays in building and sustaining the economy. To this end Commerce Queensland sees the responsibility of State Government as creating an environment which is conducive to economic growth. Greater priority must be given to examining and bringing down the cost of doing business in each State. Creating a strong business operating environment that allows local industries to compete globally is pivotal to the economic well-being of business.

Further to this every region in Australia is in competition with each other to some extent in the area of investment attraction and retention through competitive business cost and taxation regimes. As a result, Queensland needs to have a business operating environment that is the most competitive. Business in this State is facing increasingly tough competition not only from domestic markets but from overseas. Our competition is never standing still and if Queensland does not respond to initiatives occurring elsewhere our attractiveness is diminished in the eyes of potential and existing investors. It is important to note that if all State's adopt this 'competitive federalism' approach then Australia as a whole would dramatically improve its international competitiveness.

We would like to thank the Standing Committee for the opportunity to provide written comment to this Inquiry. Commerce Queensland at this stage does not seek to appear before the Senate Select Committee Hearing scheduled for Brisbane on the 7 April 2008.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'UB Booth', with a stylized flourish at the end.

Beatrice Booth
President

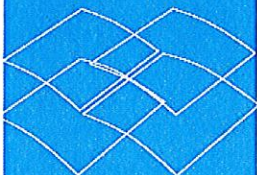
Attachments:

- Commerce Queensland's 2008-2009 State Budget Submission
- Report entitled 'The Role of Government in Queensland'

Policy Development
& Representation



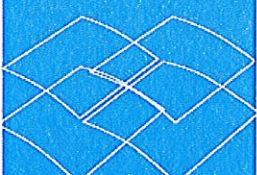
Workplace Health
& Safety



Workplace Relations
& Employer Advice



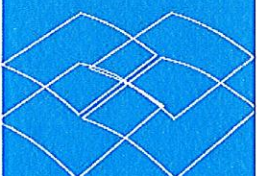
Human Resource
Management



International Business



Vocational Education
& Training



Eco Efficiency Advice

COMMERCE QUEENSLAND PROFILE

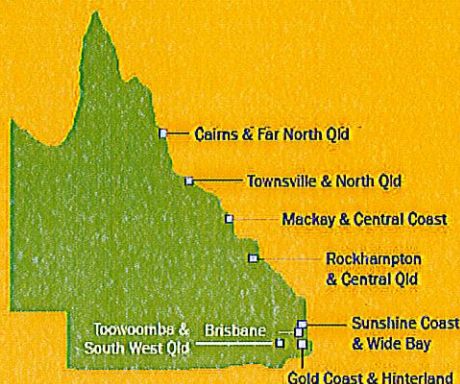
Commerce Queensland is Queensland's largest business organisation and is the trading name of the Queensland Chamber of Commerce and Industry. It has a statewide membership drawn from all industry sectors and has been the state's peak employer/industry body since 1868.

Commerce Queensland is a non-Government organisation that seeks to work with Government and other groups to shape Queensland's economic and social environments in a way that promotes business growth and community prosperity.

Commerce Queensland is called upon by thousands of enterprises to deliver a broad range of business services including advocacy and representation, workplace and industrial relations, staff development and training, workplace health and safety, environmental management and international business facilitation. We are commercially-minded and expertly-qualified.

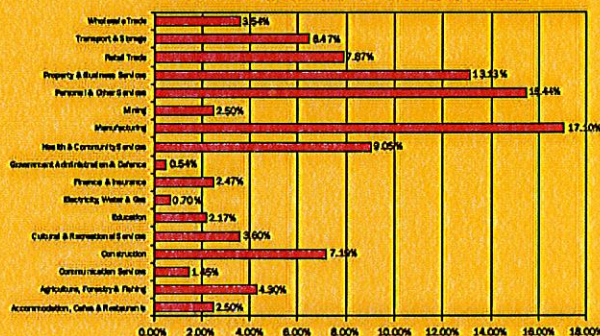
Commerce Queensland is a founding member and influential partner of the Australian Chamber of Commerce and Industry (ACCI) and part of the worldwide network of Chambers of Commerce and affiliated business service organisations.

Commerce Queensland has in excess of 3,700 direct members across 8 regional offices and acts for over 135 local chambers of commerce and 60 trade and professional associations. In total, Commerce Queensland represents in excess of 25,000 businesses and our vision is to remain the leading facilitator of business success in Queensland.

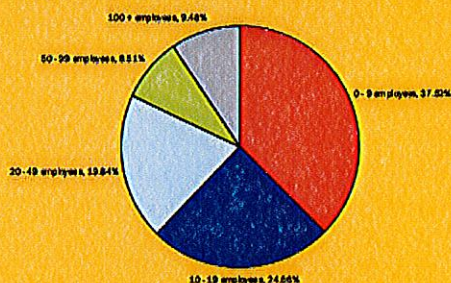


The diversification of Commerce Queensland's membership is illustrated in the following charts:

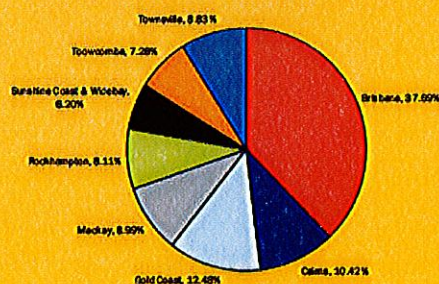
Commerce Queensland members by Industry



Commerce Queensland members by Employment Size



Commerce Queensland members by Region



Commerce Queensland
QUEENSLAND'S CHAMBER OF COMMERCE AND INDUSTRY

Queensland's Peak Industry Body