Queensland Competition Authority

Issues Paper

Industry Assistance in Queensland

April 2014

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SUBMISSIONS

Closing date for submissions: 30 May 2014

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of industry assistance measures in Queensland. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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Confidentiality

In the interests of transparency and to promote informed discussion, the QCA would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the QCA will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (RTI)), it cannot guarantee that submissions will not be made publicly available.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority established to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Task

The Queensland Government has asked the QCA to investigate the effectiveness of Queensland Government industry assistance measures and their contribution to the state's economic performance and productivity. The Ministerial Direction is at **Appendix A**.

Key dates

Receipt of terms of reference:	31 March 2014
Release of Issues Paper:	11 April 2014
Due date for submissions:	30 May 2014
Release of interim report:	29 August 2014
Consultations and submissions:	mid September 2014-January 2015
Final report for Government:	30 June 2015

Registration of interest

http://www.qca.org.au/Subscribe

Contacts

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1 ABOUT THIS INQUIRY

The Queensland Government has asked the Queensland Competition Authority (QCA) to investigate the effectiveness of Queensland Government industry assistance measures and their contribution to the state's economic performance and productivity, including to:

- *identify the industry assistance measures in place, including objectives, administration and funding*
- *develop and apply a performance assessment framework to evaluate the effectiveness of assistance measures*
- *propose options to reform current assistance measures.*

The focus of this inquiry is to develop an assessment framework for current and future industry assistance measures, and for that assessment framework to focus on outcomes for the Queensland economy.

The industry assistance measures covered by this inquiry are broad and could include government subsidies, taxation revenues foregone, government purchasing preferences, underpricing of access to government-owned assets or services and regulations that restrict competition or innovation. Options for reform are also potentially wide-ranging, but with a clear focus on improving the economic impact of industry assistance in Queensland.

This inquiry has to be considered in the context where the Queensland Government has limited financial resources to meet its broad commitments. Also, when the Queensland Commission of Audit looked at industry assistance it was unable to make clear findings given the limited information available on the scope and effect of industry assistance measures. This inquiry is the Queensland Government's attempt to gain clear answers on a way forward for industry assistance.

In terms of priorities, the QCA has been asked to provide an interim report on the appropriate performance assessment framework by 31 August 2014 and for a final report by 30 June 2015.

Much of the basic information on the objectives, administration and funding of industry assistance measures will need to be provided by the government departments that administer the various industry assistance measures. Nevertheless, the QCA will rely heavily on the input of all stakeholders in makings its findings and recommendations in relation to developing an appropriate performance evaluation framework and making recommendations for future reform.

1.1 Background

Australian, state and territory governments have a long history of providing assistance to industry. Prior to Federation, State Governments imposed tariff barriers to protect local industry. Addressing free trade between the states was embodied in the Australian Constitution.

Following Federation, industry assistance has primarily been provided by the Australian Government through international barriers to trade (e.g. tariffs and quotas). While international trade barriers have declined markedly in the last 30 years, this reduction has been partially offset by the shift towards greater budgetary assistance to industry. In 2011-12, the

Australian Government provided $10.5 billion in total net assistance to industry. Queensland's share of this is in the order of $1.9 billion.[1]

Assistance provided by state governments has traditionally been directed to the agriculture and manufacturing sectors but has expanded over time to include the tourism and technology sectors as well as targeting the environment, small business and regional development. In 2008-09, the Productivity Commission (PC) estimated that the Queensland Government provided $850 million in direct budgetary expenditure to industry assistance programs (PC 2011, p. 62).

Governments provide industry assistance with the aim of achieving a range of policy objectives, including facilitating economic growth or employment, supporting regional development or improving social or environmental outcomes.

1.2 Context

Industry assistance generally benefits those businesses that receive it. Where it targets market failures and is delivered effectively it can promote economic growth. Where it does not, assistance comes at a cost to other industries, taxpayers and consumers.

In 2012, the Queensland Commission of Audit (QCoA) was established to review the Queensland Government's financial position, and to make recommendations on:

- strengthening the Queensland economy
- improving the State's financial position, including regaining a AAA credit rating
- ensuring value for money in the delivery of frontline services.

The QCoA concluded that significant action is required to arrest the deterioration of the State's financial position and to restore Queensland's financial strength and AAA credit rating. A key part of achieving this was based on identifying reforms to grow and strengthen the Queensland economy.

In this context, the QCoA made comment on aspects the Queensland Government's existing industry assistance programs, noting that it was difficult to:

- quantify accurately the budgetary cost of industry assistance
- assess if the assistance had been effective (QCoA 2013, p. 2-334).

The QCoA said that, for instance, many of the performance measures published with the Budget's Service Delivery Statements are partial in nature and very few demonstrate effectiveness in achieving economic improvement (QCoA 2013, p. 2-334).[2] The QCoA highlighted a number of other issues that are relevant to this inquiry, including that:

[1] QCA estimate based on the PC's industry assistance estimates for 2011-12 and includes budgetary outlays, tax concessions and import assistance. The PC publishes estimates of Australian Government assistance at the national level by industry sector. The allocation of national level estimates to Queensland used a two-stage procedure. First, Queensland received an allocation of zero for budgetary outlay measures solely targeted at other states (e.g. the automotive industry), and an allocation of 100 per cent for a small number of assistance measures largely targeted at Queensland. Second, the remaining assistance was allocated to states based on state shares in national value added by industry sector.

[2] The QCoA also highlighted that it was difficult to determine the extent and degree of coordination or consistency of industry policy across the Queensland Government.

- There is some tension between a government's role in facilitating economic development through a range of broad policy measures and an industry policy that seeks to promote economic growth by assisting a targeted industry, or a targeted company, or assist in a targeted way (QCoA 2013, pp. 2-330/1)
- The PC has highlighted that:
  - industry policy should establish the right economic environment for all firms, and facilitate adjustment to market pressures rather than resisting those pressures
  - the primary impact of selective assistance is to shift resources between sectors of the economy
  - industry specific policy can only be effective if it achieves higher overall economic activity (i.e. it should demonstrably improve economic efficiency, not just outcomes in the assisted industry), and
  - much of the selective assistance provided to industry by State governments has little or no positive effect on the economic welfare of the community as a whole (QCoA 2013, p. 2-335)
- While market failure can be used to justify government intervention, the existence of market failure is not in itself sufficient to justify government intervention. The extent and implications of the market failure need to be weighed against the direct costs of the intervention (the deadweight costs of taxes required to fund government activities and the distortion of economic incentives caused by those measures) as well as the possible costs arising from a mistaken policy – so called 'government failure' (QCoA 2013, p 2-335)
- Direct and indirect government assistance to industry has a significant effect on the structure of the economy and the incentives to invest. The role of the Government in assisting industry and facilitating industrial development needs to be clearly stated, consistently applied and directed towards productivity improvements which benefit the whole economy (QCoA 2013, p 2-309)
- Partial measures used to assess performance should be efficient proxies for genuine economic improvement. It is unclear that the partial measures used to date are appropriate to demonstrate economy-wide outcomes of industry assistance (QCoA 2013, p. 2-335)
- The PC (and the Victorian Competition and Efficiency Commission (VCEC)) have improved economic outcomes by analysing and making transparent the effects of particular policies on economic performance (QCoA 2013, p. 2-337).

The QCoA concluded that there appears to be little consideration given to improving productivity in designing or implementing industry assistance policies in Queensland:

> *…it is not possible to obtain sufficient information to list or quantify the range of industry policies in place in Queensland, or to evaluate the objectives, effectiveness or value for money of those policies. The Commission considers that industry policy needs to be more focussed on measures to improve the productivity of business and industry for the broader benefit of the economy. (QCoA 2013, pp. 2-337)*

In seeking to address these matters, the QCoA:

- recognised that the QCA (or similar body) could develop a rigorous, transparent approach to evaluating the effectiveness of industry policies, and their contribution to economic performance in Queensland

- recommended that the Government should rationalise and consolidate industry development and assistance programs to achieve better value for money and to ensure that such programs contribute to greater productivity in the economy (QCoA 2013, p. 2-337).

1.3 What has the QCA been asked to do?

The Queensland Government accepted the QCoA's recommendation on industry assistance and, in doing so, noted that the best way to support business and foster economic growth is by providing efficient and strong government and low taxes (Queensland Government 2013, response to QCoA #61).

As part of its response to the CoA's recommendation, the Queensland Government has asked the QCA to investigate and report on Queensland Government industry assistance measures, to assess the effectiveness of these measures (including cost effectiveness) and the contribution to Queensland's economic performance and productivity made by industry assistance. More specifically, the QCA has been asked to:

- identify the current assistance measures in place, including the objectives of each measure, administration, performance assessment and funding
- develop an appropriate performance assessment framework to evaluate assistance measures – including their cost-effectiveness and their contribution to Queensland's economic performance and productivity
- apply the performance assessment framework to current assistance measures
- propose options for reform of current assistance measures that would increase their effectiveness, including the cost-effectiveness, and
- develop an appropriate monitoring and performance evaluation process that could be adopted by the Queensland Government to continually evaluate the performance of assistance measures.

In terms of priorities, the QCA has been asked to provide an interim report on the appropriate performance assessment framework by 31 August 2014 and for a final report by 30 June 2015.

The complete Terms of Reference (ToR) for this inquiry is set out in **Appendix A**.

1.4 The QCA's process

Throughout this inquiry the QCA will be seeking the input of Queenslanders, through written submissions and scheduled consultations prior to preparing both the interim and final reports.

Well designed industry assistance can have a material positive impact on the businesses and industries that are the recipients of that assistance – those benefits can also be shared with the communities that are supported by those industries. The QCA is interested in understanding those impacts.

Industry assistance can also come at a cost to other industries and communities. And sometimes those broader economy-wide impacts can outweigh the more limited benefits received by the recipients of that assistance.

The Government has asked the QCA to assess the performance of industry assistance measures in terms of their effectiveness and contribution to the State's economic performance and productivity. These are key issues for this inquiry as it is being conducted in an environment where the Government has finite financial resources and faces on-going pressure to support industries or businesses that are experiencing hardship or want some assistance.

This inquiry needs to provide information and analysis to the Government on those industry assistance measures that do not provide benefits which outweigh the costs; and those policies that might be reformed so that they either cost less to achieve the same objectives, or can achieve more with the same level of funding.

The QCA has released this issues paper to assist interested parties to prepare submissions to this inquiry. This issues paper highlights a number of key matters that the QCA considers will allow stakeholders to make more informed submissions. Stakeholders need not seek to address all of, nor feel constrained to only comment on, the matters raised in this issues paper.

Nevertheless, submissions to this inquiry you should have particular regard to the scope of this inquiry and the particular questions the Government has asked the QCA to address.

Consistent with the ToR, the QCA will establish an assessment framework, assess industry assistance measures and recommend possible options for reform based on an economy (or community) wide perspective. The interim report will set out the performance assessment framework that will be used to evaluate industry assistance measures.

To assist in preparing both the interim and final reports, submissions are due by 30 May 2014. The QCA will conduct further public consultation in the second half of 2014 and early 2015 to help it to prepare its final report.

1.4.1 Providing information to this inquiry

In conducting this inquiry, the QCA is keen to have an open dialogue with all stakeholders to get a good understanding of the issues, evidence and views on industry assistance. The QCA is also keen to work with stakeholders to develop a strong database of Queensland industry assistance, the cost of assistance to the government and the benefits gained from the various forms of industry assistance.

The ToR invokes the QCA's powers under Part 6 of the *Queensland Competition Authority Act 1997* (the QCA Act). That part of the QCA Act provides for the QCA to conduct its public consultation processes in a variety of ways – e.g. seminars, workshops, working groups and task forces (s. 172 of the QCA Act). It also encourages the QCA to conduct its activities with as little formality as possible, that it can inform itself on any relevant matter in any way it considers is appropriate and that, while it is not bound by rules of evidence, it must comply with natural justice (s. 173).

While this information can be provided along with a claim for confidentiality, the QCA Act also sets out how the QCA must assess a confidentiality claim (i.e. is disclosure likely to damage a person's commercial interest and would disclosure not be in the public interest). If stakeholders submit information subject to a confidentiality claim, they should also provide details on why they think their confidentiality claim passes the confidentiality test in s. 187 of the QCA Act.

As this is a public inquiry, the QCA encourages all stakeholders to make as much information publicly available as is possible.

2 REPORTING ON INDUSTRY ASSISTANCE IN QUEENSLAND

The first task for this inquiry is to identify the measures that should be seen as industry assistance.

The potential scope of industry assistance measures is very broad and the time available for this inquiry is limited. As a result, the measurement and assessment of industry assistance measures may need to be prioritised.

The QCA is, therefore, interested in understanding Queenslanders' views on what is industry assistance and what is the value of that assistance?

2.1 What is (or is not) industry assistance?

At a very general level, industry assistance is a government action providing a benefit to business. This inquiry's ToR defines industry assistance as:

> *any measures implemented and/or funded by the Queensland Government, directly or indirectly, that are intended to assist any industry in the State of Queensland as determined by the Authority as part of its investigation.*

This definition of industry assistance could capture the general business of government — such as, providing a stable political and legal framework or a well-maintained road network. These are all things that assist industry by creating an economy that allows existing activities to effectively compete with their rivals (both inter-state and overseas) and is attractive for new and expanding activities to locate in Queensland. But, the frameworks, policies and programs a government implements to create a good climate for business activity are not the sorts of measures that are generally regarded to be industry assistance.

A key 'rule of thumb' used by the PC is whether industry assistance benefits, in economic terms, one business or group of businesses in comparison with others.

> *By providing assistance to some economic activities in preference to others, government action alters the incentives to participate in particular activities and can lead to a shift in the distribution of resources between activities. (IC 1996)*

That is, industry assistance has some sense of selectivity in the way that it is provided to a business or a group of businesses.

2.1.1 Intention to assist industry?

A government's intention is generally expressed in terms of an ultimate objective of improving community welfare. A government's intention is not generally expressed in terms of transferring community resources to the owners or shareholders of particular businesses, as that would indeed be corporate welfare.

While a government may well provide assistance to a business, this is generally done with an expectation that this assistance will then be shared between:

- the owners of the business through profits
- their employees, through higher wages and/or increased employment opportunities
- input suppliers, through demand for raw materials or services to the business (e.g. contract maintenance).

For instance, industry assistance may target regional development by maintaining employment opportunities in the:

- assisted business
- in the businesses that supply inputs to the assisted business (and in turn their input suppliers)
- local retail industry that supply goods and services to the employees in the aforementioned businesses.

These same processes can also work in reverse. Governments can provide subsidies or benefits to consumers that will, in part, be transferred to industry. For instance, tax concessions provided to first home buyers are provided directly to consumers, but are also intended to benefit the new home construction industry. That is, industry assistance could occur where a government provides a benefit to a consumer and that benefit is then shared with a business and then in turn with its employees and input suppliers and the local community more generally.[3]

In a slightly different context, many health, education and arts programs that are seemingly aimed at achieving social objectives could also be a significant source of assistance to industry. For example, the Commonwealth Government's Pharmaceutical Benefits Scheme and Medicare program have self-evident social objectives – but, they also clearly provide assistance to the pharmaceutical industry and to general practitioners. However, these are also not the sorts of measures that are generally regarded to be industry assistance as these schemes are intended to achieve a particular social welfare objective.

This emphasises a more general point that an industry assistance measure that has a particular intention in mind may actually have a different effect to the one intended. This places a particular emphasis on assistance measures having a well defined objective.

2.1.2 Types of industry assistance

Assistance can take many forms:[4]

- budgetary measures
  - direct expenditure (e.g. grants, subsidies, credit and loans)
  - tax concessions (e.g. exemptions, deductions, rebates, preferential tax rates, deferred tax)
  - contingent liabilities (e.g. debt guarantees)
  - funding to organisations delivering services to industry

[3] The forces of demand and supply dictate how the benefits to one party are shared amongst others. This is highlighted in economics literature in relation to the incidence of a tax. A tax legally imposed on one party can be passed onto another party, depending on the forces of demand and supply in the various input and output markets (see Atkinson et al 1980). The incidence of (or who actually pays) a tax tends to fall more heavily on the side of the market that is less sensitive to price changes. Where the demand for a good is less responsive to price changes relative to supply, businesses will be able to pass on more of the cost of a tax to customers. For example, a tax levied on the supply of fuel or electricity is likely to be borne more by customers than suppliers.

[4] In its inquiry, the CoA recognised a broad range of forms of assistance such as: subsidies; government purchasing preferences; revenues foregone; and under-pricing or under-recovery of services or access to infrastructure provided by government (CoA p. 2-331).

- government purchasing preferences and local content requirements
- subsidised public infrastructure and services including, underpricing of services from Government owned assets (e.g. water pipelines and dams)
- restrictions on competition that benefit some businesses.

The Queensland Government[5] implements many programs that could be classified as industry assistance – a sample of budgetary measures is set out in Table 1.

Table 1: A sample of Queensland Budgetary Programs

Program	***Purpose***	***Funding***
Screen Queensland	Develop and support the local screen industry and attract production to Queensland.	\$12.8 million (2011/12)[a]
Attracting Aviation Investment Fund	To secure new aviation business and routes from identified priority markets as well as enhance existing partnerships. Provides financial incentives to airlines.	\$8 million (2013-2016)[b]
First Start Loan Program	Provides loans at concessional rates of interest to applicants in the first year of establishing a primary production enterprise in Queensland.	\$45.8 million approved (2012/13)[c]
Tourism & Events Queensland	To identify, attract and develop significant events that contribute to Queensland's economy and industries	\$75 million (2012/13)[d]
First Home and Vacant Land concessions	To assist first home buyers and encourage construction of new homes and provide support for the housing construction industry.	\$202 million (for the stamp duty exemption 2012/13)[e]
Taxes on Gambling Exemption	Provides tax concessions to owners of gaming machines and casinos in Queensland.	\$120 million (2012/13)[e]

Notes: a Screen Queensland 11/12 Annual Report b Tourism and Events Queensland, Queensland Aviation Blueprint to 2016 c Queensland Rural Adjustment Authority Annual Report 2012-13 d Tourism and Events Queensland Annual Report 2012/13 e Queensland Government Budget Papers 2013-14, Appendix A.

Other examples of industry assistance in Queensland could include[6]:

- *Medical Research Commercialisation Fund (MRCF)* – provides dedicated investment funding to support the commercialising of early-stage medical research discoveries originating in its member institutes. The collaborative nature of the MRCF seeks to foster best practice in commercialising medical innovations
- *Payroll tax exemption* – assists small and medium-sized businesses by providing employers, with an annual payroll of \$1.1 million or less, with an exemption from payroll tax
- *Gladstone Ports Corporation (GPC) concessions* GPC has a number of long term major industry contracts where port charges are significantly below commercial rates. These contracts were entered into to support various industries and Government initiatives. Revenue foregone estimated at \$47.3 million in 2013-14.

[5] Assistance is also granted by all levels of government. For example, the Australian Government provides industry assistance (e.g. tariffs) as does local government (e.g. council rate reductions, cash incentives and the provision of infrastructure and information services).

[6] Also see examples included in the QCoA report pp. 332-3.

- *Electricity tariff subsidy* — there are a range of electricity tariff subsidies to industry. For example, in 2012-13, the Queensland Government paid $110 million to subsidise electricity tariffs for 38 000 business customers in regional areas (mainly farmers and irrigators)
- *Defence Industries Queensland* — is a government body that supports Queensland's defence industry businesses to allow them to access supply opportunities.

Industry assistance can also include laws and regulations that limit competition, whether that is through restrictions on competition or innovation. For example, in Queensland: only pharmacists (or corporations owned by pharmacists and their families) can own a pharmacy; only hotel licence holders can operate a bottle shop; only small retailers, and other exempt shops, can trade outside certain hours; to operate a taxi you need a licence and the number of taxi licences is limited.[7] These too are measures implemented by the Queensland Government intended to assist an industry.

2.2 Criteria for defining industry assistance for this inquiry

The discussion above provides some sense on what the book ends of a definition of an industry assistance measure should look like. That is, industry assistance should probably include measures that:

- provide a benefit to business (either directly or indirectly) – thereby excluding community and non-for-profit entities
- are intended to assist industry in the state of Queensland, which suggests that:
  - the assisted industry's activities need to be located in Queensland
  - the term 'intent' needs to be understood – one option being a definition based on the impact of the policy and/or intermediary objectives (i.e. to raise employment, productivity, investment and/or real incomes)
- benefit, in economic terms, a business or group of businesses in comparison with others.

That is, if resources are transferred to a business, as a result of Queensland Government policy, and the other aspects of the test described here also hold, then the policy is industry assistance even if the objective of the policy is based on a welfare, environmental or social objective or if the incidence of the policy assists households. For example, a government may aim to reduce greenhouse gas emissions by funding green energy businesses or stimulate employment in a sector by providing consumer subsidies for certain products.

On this basis, direct measures (e.g. grants, subsidies and tax concessions etc) are treated as assistance as are indirect measures including restrictions on competition (e.g. regulations that limit entry through licensing). The PC excludes outlays on public administration and community services.

In this way, industry assistance would include assistance to:

- agriculture for drought relief as it is provided to only one sector of the economy but would exclude disaster relief which sought to rebuild community assets (e.g. roads and bridges)

[7] See: *Pharmacy Business Ownership Act 2001, Liquor Act 1992, The Restricted (Allowable Hours) Act 1990 and The Queensland Transport Operations (Passenger Transport) Act 1994*.

- professional sporting teams as they are a business and the assistance is selective, but exclude assistance to amateur and under-age teams as they are not a business
- a commercial film as it is a business activity, but would exclude assistance to ballet and art galleries where they are part of the not-for-profit sector of the economy.

2.3 Measuring industry assistance

The discussion above sets out a possible framework for cataloguing Queensland's industry assistance measures. However, reporting of industry assistance also requires some values being attached to each of the measures (including obtaining sufficient descriptive information on how the policies work in practice).

Industry assistance provided through direct budgetary expenditure is relatively straightforward to quantify where the relevant data are available. It is also possible to quantify assistance provided through tax concessions using a revenue forgone approach. This approach measures the difference in tax paid by taxpayers who receive a particular concession, relative to similar taxpayers who do not receive the concession.

The Queensland Government accounts for providing community service obligations (CSOs) and other concessions that under-price services provided by Queensland Government owned corporations (e.g. for ports and the metropolitan and rural rail network). The QCA's determinations have made more transparent the under-recovery of costs in providing water and rail infrastructure and in the electricity price equalisation arrangements. The complexities in understanding the degree of industry assistance inherent in these arrangements emerge once a value is sought to be placed on a sunk investment and how the overall government under-recovery (i.e. subsidy) should be allocated between industry and the community. These things may be difficult to value.

The same could be said for industry assistance associated with the acceptance of contingent liabilities or risks onto the government's balance sheet. It might be difficult for this inquiry to assess all (or any) of the contingent liabilities associated with the Government's industry assistance measures (but this inquiry could make some progress if it could document those risks and require that they be valued into the future).

Quantifying the assistance afforded by a regulatory restriction on competition poses significant challenges, noting that there have already been many national competition policy (NCP) reviews of such arrangements. The former Chairman of the PC has suggested that another round of competition reviews should be held with a focus on the most significant restrictions on competition (see Box 3.3).

Valuing the effects of purchasing policy preferences is also difficult as it would require a detailed understanding of the acceptance of bids across government on a contract by contract basis.

Valuing the underpricing of government services to industry raises further complexity.

It is possible that these 'off-budget' forms of assistance may be quite significant relative to the direct payments to industry.

While this inquiry may not always be able to place a value on all of these various forms of assistance measures (as the basic data is not available), it may be able to establish frameworks and requirements that these issues be considered and documented at the time an assistance measure is being proposed and evaluated over the life of the assistance measure.

Questions

The discussion above highlights that the range of measures that could be thought of as industry assistance could be very broad. And, that even with some narrowing of the term it still remains quite broad, and that priorities for review need to be developed.

2.1 Do you think that the QCA's suggestions are reasonable that industry assistance measures should consist of those things done by the Queensland Government, to help a business/industry in a selective way? If so why? If not, why not (i.e. should it be broader or narrower)?

2.2 What do you think are the industry assistance measures in place in Queensland? Are there other forms of assistance to those mentioned above?

2.3 What measures do you think the QCA should focus on in this inquiry?

2.4 How do you think the QCA should value the benefit received from an industry assistance measure? In particular, what are the key methodological problems likely to be encountered in seeking to measure industry assistance?

3 EVALUATING EXISTING INDUSTRY ASSISTANCE MEASURES

Governments provide industry assistance for a range of economic, environmental, political and social reasons. From the ToR for this inquiry, it is apparent that the Queensland Government is not asking the QCA to investigate and report on its policy priorities. Rather, it is asking the QCA to apply an economic framework to:

- *assess the effectiveness of industry assistance measures*
- *report on the contribution of assistance measures to Queensland's economic performance and productivity*
- *provide advice on ways to improve the effectiveness of assistance measures*

The Queensland Government would then have more information and a better basis to do a range of things that might well include: reassessing its policy priorities; fine-tuning existing industry assistance measures to better meet their specified objectives; limiting or closing down ineffective measures; or expanding measures that have proven to have a positive effect on the performance of the Queensland economy. The QCA has also been asked to develop a monitoring and evaluation framework that can be applied to monitor measures over time as well as evaluate new proposals..

This inquiry is being undertaken to provide an economic perspective to these types of issues, in an environment where the Queensland Government has limited resources and must identify those policies and programs that maximise benefits to the Queensland community.

An effectiveness assessment largely focuses on whether a particular program is designed so it is likely to meet its stated objectives. In its review, the QCoA highlighted that any such assessment needs to reflect some "additionality"— that is, to achieve performance outcomes (e.g. production, investment or employment targets) that are in addition to what would have occurred without the measure.

Reporting on the contribution of an assistance measure to the Queensland economy goes a step further. It involves assessing whether a particular assistance measure is likely to provide a net benefit to the Queensland economy.

In reviewing industry assistance, the PC has sought to measure the broader economy-wide impacts of assistance. For example, a subsidy to one industry requires a tax on another industry (or person) both of which tend to create distortions that reduces the performance of the economy as a whole. Raising taxes and providing subsidies also requires administrative effort and economic costs.

This chapter explores these issues in more depth, first by outlining a possible assessment framework and then by discussing the details of what an effectiveness assessment and net benefits assessment might involve.

3.1 Developing and applying a performance assessment framework

For any government policy to be effective and economically efficient:

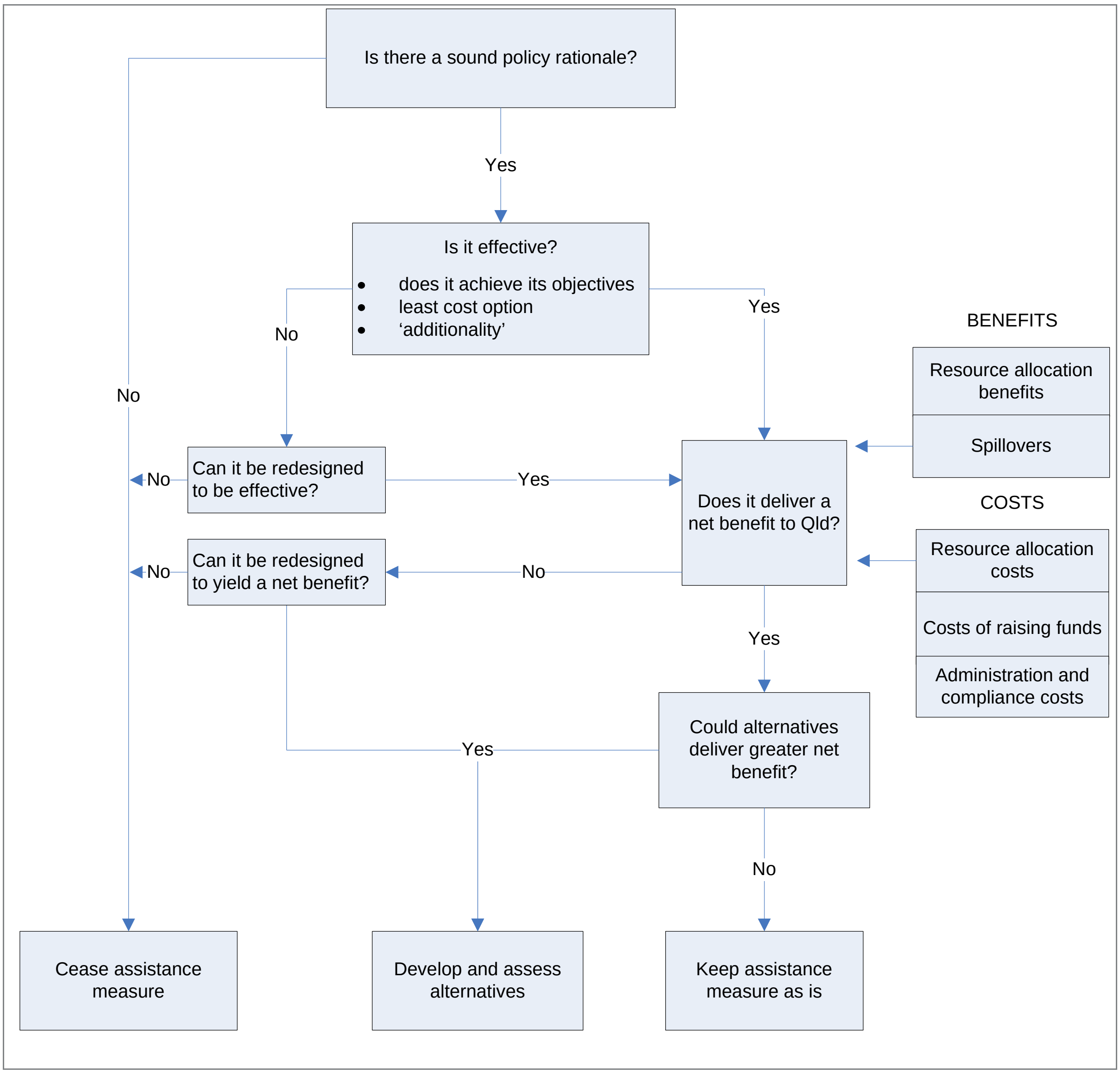
- the objective has to be well defined
- the measure has to be designed to achieve the objective
- the measure has to contribute to positive economic outcomes

- over time there needs to be a mechanism to assess whether:
  - the measure is meeting its objective
  - the objective remains relevant, and
  - the measure should be amended if the objective changes over time.

A range of performance criteria may be established at the start of a program to allow for any on-going performance monitoring (i.e. has the policy achieved its objective?). Any such performance measures are likely to be partial in nature and reflect the priorities and outcomes of a particular industry assistance program or measure.

Performance measures should also seek to measure the effectiveness of the policy, including information on whether the policy induced activity that would not have occurred without it. An assessment framework should also set out the costs and benefits of the policy (where possible, in both qualitative and quantitative terms). A stylised version of such an assessment framework is set out in Figure 1 and key elements of that framework are discussed below (i.e. policy rationale (3.1.1) the effectiveness assessment (3.1.2) and the net benefits assessment (3.1.3)).

Figure 1: An evaluation framework



3.1.1 Is there a sound economic rationale for government intervention?

The first step in assessing a government program, like industry assistance, is to determine whether there is a problem of sufficient size or scope to justify government action.

When markets function well they promote efficient outcomes by allocating resources to their highest valued uses. But it cannot be assumed that markets always work well and sometimes government intervention is required to achieve improved economic, environmental or social outcomes. These circumstances are known as a market failure (see Box 3.1 for more detail).

A focus on market failure is not uncommon – whether that is in Queensland or elsewhere.[8] The European Commission's test for authorising state aid states that:

> *Correcting market failures: to foster jobs and growth under the Lisbon Strategy, the European Commission first considers whether the state intervention is directed towards correcting market failures. This needs to be demonstrated effectively, "...paying lip service to vague market failures without conducting economic analysis is of limited value...It is only when the sources of the market failure are identified that an effective policy instrument can be chosen" (European Commission (2005), p. 32)*

Indeed, simply observing a market failure is insufficient to justify government intervention as:

- markets can be quite resilient
  - a firm having market dominance does not equate to that firm having the ability to exercise market power if the market is contestable because there are no barriers to entry
  - products and/or services that appear to have public good characteristics can be effectively provided by the market if access to the good/service can be limited in some way (e.g. pay television)
  - markets can be 'self correcting' as individuals and groups may find solutions to market failures themselves, e.g. by pooling information to overcome information imbalances.
- government intervention can also fail as it may result in inefficiency, misallocation of resources or unintended consequences. For example, when Australia's financial markets were regulated**,** there was an interest rate ceiling for small firm borrowing from banks. While the intention was to assist small business, it made lending unattractive with credit rationed so that many small businesses were unable to borrow. In addition:
  - governments and their agencies face pressures to divert their objectives away from those of society as a whole (agency decision makers may seek to maximise the size of their agency or budget, or minimise risks or be seeing to 'do something' for a particular group)
  - government intervention, particularly where it confers a significant pecuniary benefit, can divert industry away from focussing on improving the competitiveness of its activities and towards more strategic behaviour, in the form of exploiting 'loopholes' in programs or rent seeking behaviour.

[8] The market failure framework is a common feature of most government assessment frameworks. In Queensland, see for example the Queensland Government's *Governing for Growth* strategic policy prepared by the Department of State Development, Infrastructure and Planning (2014) and the *Regulatory Impact Statement Guidelines* administered by Queensland's Office of Best Practice Regulation. For other examples see VCEC (2011), PC (2007) and HM Treasury (2003).

Box 3.1: Market failure – a role for Government?

A market economy is seen as the most effective means of delivering the needs and wants of consumers through an exchange with the suppliers of goods and services. The forces of supply and demand will generally result in the price of a good or service reflecting the efficient costs of supply. This outcome relies on a number of key underlying assumptions, including that: there are many suppliers and consumers of a good or service; consumers and producers act in their own best interests (i.e. consumers seek to maximise their own individual well-being and producers seek to maximise profits); there are no transactions costs.

In reality, these key underlying assumptions are rarely fully met and are more often only met to various degrees. Breaching these underlying assumptions supports a role for government in a market economy, and these breaches are known as market failures. Key recognised market failures include:

Lack of effective competition may arise in the presence of market characteristics such as natural monopoly, or when the market has a small number of firms that are able to restrict output and maintain prices above optimal levels. Similar problems may arise if there is a small number of buyers of a good or service (monopsony).

Externalities occur when the act of producing or consuming a good imposes costs or benefits onto others such that the private benefits or costs of an activity do not reflect the full social benefits or costs. Environmental pollution, traffic congestion and exploitation of an open access resource (e.g. a fishery) are examples of externalities. Similarly, firms may not be able to capture the full benefit of research and development and may invest at less than optimal levels, which gives rise to the introduction of intellectual property laws and government support for R&D.

Public goods are goods and/or services where consumption is non-rivalrous (i.e. consumption by one person does not affect the amount available to others) and non-excludable (i.e. people cannot be prevented from consuming the good). Producers and consumers cannot capture the full benefits of provision and payments for provision cannot be enforced. As a result, public goods are likely to be under-provided by the private sector. Examples of public goods are the defence and police forces.

Knowledge and information may possess public good characteristics. One person's viewing of a TV show does not detract from other people's ability to watch the same show (non-rivalrous consumption). However, encryption of a broadcast (such as with pay TV) may address the non-excludability aspect and may allow for the market provision.

Information problems arise where one party possesses more information about the transaction than the other or where institutional or cost barriers prevent parties to a transaction from obtaining relevant information about the characteristics of a transaction (most notably risks) and/or each other. Product standards and labelling laws are examples of government intervention to address information failures.

Industry assistance is more frequently being introduced to address 'systems' or 'coordination' failures – for example, firms in an industry may be locked-in to an old standard, when it would be beneficial for all to move to the new standard, but moving to the new standard may require co-ordinated decisions across many diverse stakeholders (i.e. high transactions costs). There is considerable debate as to whether systems failure is a legitimate grounds for government intervention, and if so, whether it is a rationale in its own right, or simply a subset of the market failure framework (see OECD 1997, Warwick 2013).

As many markets operate with some degree of market failure, the 'test' for governments is whether the benefits of government intervention will outweigh the costs:

> *The extent and implications of the market failure need to be weighed against the direct costs of the intervention (the deadweight costs of taxes required to fund government activities as well as the distortion of economic incentives caused by those measures) as well as the possible costs arising from mistaken policy – so called 'government failure'. (QCoA 2013, p. 2-335)*

Governments can use a number of different policy responses to address market failures. In some cases, government intervention to establish property rights can allow parties affected by externalities to negotiate over outcomes. Such an approach can effectively and efficiently address the market failure without the need for direct regulation or budgetary assistance. For example, intellectual property laws seek to encourage investment in developing and commercialising new discoveries or ideas by limiting the ability of others to freely obtain (or "steal") the results of the inventor's efforts (e.g. patent for new investments, copyright for new music or films and trademarks for investments in a brand name or image). For many similar reasons, tenure can be granted over mining leases, or indeed over a fishery, to eliminate the effects normally encountered with an open access resource.

3.1.2 Assessing effectiveness

Effectiveness is a measure of how well the outputs of industry assistance achieve the intended objectives of that assistance measure. The key issue with assessing the impact of assistance is separating the impact of assistance from the multitude of other factors contributing to outcomes. In order to determine whether the assistance measure had any impact, it is necessary to control for the effects of all other influences (that is, to determine the 'additionality' of the assistance activity, or its net incremental impacts, that would not have occurred in the absence of the measure).

Assessing whether an assistance measure actually resulted in the changes it was intended to make can be difficult, in part, because it requires consideration of the potential unintended consequences of the policy (e.g. resulting from displacement, substitution, leakage and/or adverse interactions with other policies, see Table 2).

The ToR also indicates that the QCA's assessment of effectiveness should consider the cost effectiveness of an assistance measure. Cost effectiveness is generally accepted to be a measure of the extent to which the cost of resources used to produce a specified outcome has been minimised. An assistance measure is cost effective if it has the lowest cost of producing the same or very similar effects. This does not mean that the option necessarily has a net benefit.

3.1.3 Assessing whether assistance provides a net benefit (efficiency)

The ToR requests the QCA to investigate and report on how current assistance measures contribute to Queensland's economic performance and productivity. This assessment requires more than an assessment of whether a particular industry assistance measure is effective. It requires the QCA to report on whether industry assistance provides a net benefit to the Queensland economy. These are largely questions that relate to economic efficiency.

Economic efficiency is essentially a measure of net benefits from an economy-wide perspective. An economically efficient option means that no other option can provide a higher net benefit to the community.

To generate benefits, the industry assistance measure must shift resources in the economy to higher value uses, either by: increasing economic activity using otherwise unemployed resources or using existing productive resources better or creating additional ‘spillover’ benefits in the economy.

Table 2 Unintended effects of policy interventions

Effect	*Definition*	*Example*
Displacement	The positive outcomes from a policy are offset by negative outcomes of the policy elsewhere.	A firm receiving an R&D subsidy increases the level of its R&D, but the wages of scientists are bid up resulting in non-recipient firms reducing their R&D investments. A policy increases exports of a target group, but the resulting increase in the exchange rate at the margin makes it more difficult for other industries to compete in export markets
Substitution	The effects of an intervention on a particular individual, group or area are realised at the expense of other individuals, groups or areas, or public monies substitute for private monies.	An employer appointing a jobless person from a government scheme, rather than a standard applicant, in order to secure a recruitment subsidy, or hiring a subsidised person while firing a non-subsidised person. A firm receiving an R&D subsidy reduces its own-source investment in R&D (public money substitutes for private money).
Leakage	A policy benefits others outside the target area or group.	Jobs generated in a target area are taken by those who live outside it.
Unnecessary	The policy supports outcomes which would have occurred anyway.	An employer receives a subsidy to take on workers who were going to be appointed anyway.

Source: UK Treasury, Magenta Book, p.59 Table 6.A

The benefits of industry assistance must be sufficient to outweigh the costs of achieving this shift of resources. Industry assistance can distort the efficient operation of an economy. It can do this purely by raising tax revenue necessary to fund government subsidies and grants. It can also do this more broadly by altering the ability of recipient (donor) industries to retain (shed) resources. In addition, the mere process of raising taxation revenues and redistributing it to the benefitting industries is also a costly activity that must be accounted for (see Box 3.2).

Clearly, the assessment of costs and benefits should focus on the state of Queensland. However, a reasonable question would be whether a national assessment framework may be a more appropriate measure for policies and programs that have broader impacts or that target national policy problems. This may be particularly important for investment attraction policies that seek to transfer investment between states without changing aggregate investment and employment in Australia (IC 1996).

3.1.4 Assessing the aggregate impact of industry assistance across the economy

The ToR asks the QCA to consider industry assistance's contribution to Queensland's economic performance.

The PC and its predecessors have examined industry assistance matters for over 40 years. Over that time, the focus of its evaluations has been on the aggregate impact of assistance, and not on micro-measures of whether a particular program's objectives were met. This analysis has relied on both estimates of effective rates of assistance and computable general equilibrium (CGE) modelling of the Australian economy.

Box 3.2 Economic costs of taxation

Government activities, including industry assistance, are funded through taxation. While taxes provide governments with a source of revenue, there are costs to society as a whole in raising this taxation revenue. This cost does not refer to the income simply transferred from individuals and businesses to government — while tax payments to government are a cost to individuals and businesses, from an economic perspective they are viewed as a transfer of wealth and not an actual cost to society.

The economic costs of taxation refer to the additional costs, and thus loss to society, resulting from a government's revenue raising activities. These additional costs can be categorised into:

- collection/administration costs – the cost of administering the tax and collecting the revenue
- compliance costs – the monetary and time costs incurred by taxpayers to comply with the tax system
- deadweight losses – the value of the consumption or output foregone as a result of the price-raising effect of taxation. Taxation puts a wedge between the cost of supplying a product and the price of the product. At the higher price, less of the product is demanded. As a result, the costs of raising a dollar in taxation are higher than a dollar, because taxation alters the incentives to produce, to work, to save, to buy or to invest (known as the excess burden of tax).

The Henry Tax Review indicated this excess burden of tax varies across forms of taxation (which reflects the efficiency of the various taxes) and are generally in the range of 10 to 70 cents per dollar raised (see Table 3).

Table 3: Marginal and Average Excess Burdens of Australian Taxes

Cents of consumer welfare per dollar of revenue

Tax	Marginal excess burden[a]	Average excess burden[b]
Municipal rates	2	1
GST	8	6
Land taxes	8	6
Fuel taxes	15	10
Stamp duties other than real property	18	18
Labour income tax	24	16
Conveyancing stamp duties	34	31
Motor vehicle registration	37	32
Payroll Tax	41	22
Insurance taxes	67	47
Royalties and crude oil excise	70	50

a Marginal Excess Burden is the additional welfare loss imposed by a small increase a tax divided by the change in government revenue. b Average Excess Burden is the total welfare loss from imposing a tax expressed as a proportion of the total revenue raised by the tax.

Source: Henry Tax Review (2009), KMPG Econtech (2010).

Consequently, although taxation revenues may be spent on beneficial uses, the benefits have to be weighed against the dead weight losses incurred as a result of levelling the tax.

While the PC's measurement techniques have focussed on Australian Government assistance, including international barriers to trade, the conclusions for this analysis are an important starting point for the QCA's inquiry.

The PC's effective rate analysis highlighted that:

- assistance to one industry is a tax on others (i.e. a tariff that supports one industry is a tax on other industries that use its products as inputs)
- assistance may have perverse effects as support provided to one industry may be offset or exceeded by the taxing effect of support for other industries
- high levels of assistance to one industry distort incentives and have an adverse impact on the economy as a whole
- disparities in assistance between like activities will also have a large distortionary impact.

The PC has also relied on CGE modelling[9] to analyse the economy-wide effects of industry assistance. CGE modelling can capture price changes and resource movements across industries and the economy and provide a useful basis for understanding:

- the opportunity costs and efficiency consequences of policies
- impacts of industry assistance on Queensland's gross state product
- the linkages between industry assistance, the public financing requirement, and the shifting of resources from other potential and competing uses.

The QCA, and the QCoA before it, considers there is considerable merit in evaluating industry assistance measures by measuring the economy-wide impact, and that CGE modelling has the greatest likelihood of capturing these economy-wide effects in a robust and transparent way.

3.1.5 Assessing the impact of industry assistance on productivity

In addition to assessing the impact of assistance on the economy, the ToR also asks the QCA to consider its impact in terms of productivity.

These two references are not inconsistent, as productivity growth is a component of economic growth. Nevertheless, it does indicate an interest in understanding both the impact that industry assistance may have on better economic performance as well as an interest in understanding the way in which that may be achieved (e.g. by improving labour productivity or multi-factor productivity[10]).

In a recent paper on productivity growth, Mr Gary Banks (the former Chairman of the PC) identified a possible program of reforms (including to industry assistance) to improve productivity growth. His paper re-iterated many of the points made above (e.g. the importance of considering economy-wide effects and of "additionality") – see Box 3.3.

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[9] This is a model of an economy that is used to assess impacts of policy options on an industry-by-industry basis. It specifies transaction values and the nature of demand and supply to model the impact that a change in one sector of the economy will have on other sectors. In doing so, it reflects the impacts that industry specific policies may have on other parts of the economy.

[10] Labour productivity measures the change in the volume of output relative to the change in the volume of labour inputs (e.g. hours worked). Multi-factor productivity focuses on the change in the volume of output relative to the volume of inputs used in production, where inputs can include labour, capital, materials and energy. Productivity growth can come from more output being produced with the same level of inputs, or fewer inputs being used to produce the same level of output.

Box 3.3 Gary Banks on productivity

There are two determinants of how firms contribute to productivity performance, namely:

- Innovation – doing new things or doing old things better
- Creative destruction – process whereby better performing firms displace poorer performing firms.

Competition is a key driver of innovation and creative destruction. While productivity growth is the responsibility of businesses, government policies that encourage organisations to be cost-conscious and innovative, while not inhibiting better performers from prevailing over weaker ones, can legitimately be called 'pro-productivity'; those having the opposite effects are 'anti-productivity'.

A government productivity agenda does not contain a 'silver bullet'. Rather, policy needs to encourage managers to undertake the risky innovations and investments to improve productivity and to not engage in rent-seeking behaviour when under market pressure.

Industry assistance, such as tariffs, impose unnecessary costs on the community and detract from productivity by propping up the least productive firms and confuse signals for all industries as to whether their futures lie in the pursuit of productivity or preferment.

Subsidies and procurement preference schemes can have similar impacts, unless they rectify a legitimate market failure. For example, subsidies to support innovation need to be able to deliver socially valuable spillovers over and above those attainable through generic support (e.g. the R&D tax concession). In addition:

- adjustment assistance should facilitate change and be directed primarily at enhancing the skills and mobility of workers, rather than supporting firms under competitive pressure
- drought support needs to move from open-ended assistance for farmers facing hardship, to arrangements with common criteria and duration provisions
- there should be a second round of more focussed NCP reviews targeted at the more significant restrictions on competition (e.g. pharmacy ownership restrictions, taxi licence quotas, unduly restrictive licensing and self-regulation of certain professional services)

Support for innovation needs to be allocated in ways that are likely to yield a net payoff to the community. As this has proven difficult to do, governments should:

- conduct rigorous evaluations to verify that assistance measures are achieving 'additionality' and are cost effective
- focus support on basic and strategic research where market failures are potentially greatest, rather than commercialisation activities
- facilitate greater cooperative research between businesses and public/academic institutions.

While most regulations have worthy objectives, many are formulated without sufficient regard for damage on productivity and whether objectives could be met in more cost-effective ways.

Commonwealth and state taxation systems still comprise too many taxes and rely too heavily on the more distortionary ones.

Source: Banks (2012)

He also highlighted that productivity growth is primarily driven by businesses. But, this performance is conditioned by the regulatory, taxing and spending behaviour of governments. What should be avoided is to encourage firms to approach government whenever they are in financial difficulty. And, where governments were involved, this should be based on addressing market failures and encouraging full cost-recovery.

Questions

Yours views and any information you can provide in response to the questions below will assist the inquiry. Views and information can be in relation to specific industry assistance measures with which you are familiar, or may relate more generally to, for example, a range of measures applying to an industry. Both 'positive' and 'negative' responses are sought to the questions. For example, information on policies which in your view have a sound rationale, are proportionate responses to the identified problem and are designed simply, and examples of policies where this is not the case.

For Queensland Government assistance measures:

3.1 Is the measure based on:

- **(a) sound policy rationale?**
- **(b) clearly specified objectives? Do the objectives focus on outcomes not means?**

3.2 What data are available on assistance costs and performance?

3.3 What are the costs and benefits of the measure? Including:

- **(a) resource allocation costs and benefits**
- **(b) spillovers to third parties**
- **(c) administration costs for government and compliance costs for business**

3.4 Is there any other information you would like to provide that will assist the inquiry in evaluating the effectiveness and economic contribution of assistance measures?

Detailed questions - policy rationale

3.5 Does the assistance measure target a market failure of significant size and scope? If not, what rationale was used to justify the assistance measure?

3.6 Is the targeted market failure likely to be enduring? Are consumers and/or business unlikely to find a solution to the problem?

Detailed questions - policy design

3.7 What principles should guide the design of assistance measures?

3.8 What lessons can be learnt from the design of existing assistance measures? Are there examples of best-practice or innovative approaches?

3.9 For Queensland Government assistance measures:

- **(a) Does the measure directly address, or clearly target, the identified problem/s?**
- **(b) Is the measure intended to be temporary, consistent with a 'market building' approach?**
- **(c) Is the measure consistent with raising the long-term productive capacity of the economy?**
- **(d) Is the choice of policy instrument the right one (expenditure, regulation, tax/subsidy)?**
- **(e) Does the measure support or impede the role of prices in coordinating economic activity?**
- **(f) Is the design of the measure overly complex or prescriptive?**
- **(g) Is the measure transparently designed and implemented?**
- **(h) Does the measure target a state government policy area? What principles should be used to consider the relative roles of the Australian Government and Queensland Government in industry assistance?**
- **(i) Has the design of the measure paid sufficient attention to the possibility of unintended consequences (displacement, substitution, leakage and adverse interactions with other policies)?**

Detailed questions - effectiveness and efficiency

3.10 Please provide information on any of the following in relation to the intended changes (or impacts) of a specific assistance measure.

- **(a) Are the measure's policy targets defined in a way so they are measurable, relevant, attributable, outcome focused and capable of providing clear indications to Government on whether the policy is achieving its objectives?**
- **(b) For beneficiaries (direct and indirect), what changed as a result of the policy? Did impacts differ across beneficiaries? Were the changes consistent with what was intended?**
- **(c) Does the evidence support a 'causal' interpretation of impacts?**
- **(d) Is there evidence of unintended effects?**
- **(e) To receive assistance, how significant are business compliance costs?**
- **(f) Is there evidence that the measure has resulted in resource allocation towards less efficient businesses?**
- **(g) Is there evidence that the measure is delivered and administered efficiently?**
- **(h) Does the measure provide a net benefit to the community? Could alternatives deliver a greater net benefit?**

3.11 Should the efficiency assessment always be based on costs and benefits in Queensland? If not, under what circumstances should a broader (e.g. national) focus be adopted?

3.2 Prioritising assessment

The ToR asks the QCA to apply a performance evaluation framework to industry assistance measures in Queensland and to identify options for reform.

Given the breadth of potential measures captured by this inquiry, the QCA proposes to prioritise industry assistance measures primarily based on their probable economic impact. Some other tests that can be used to prioritise the evaluation of assistance measures include:

- Has a review of the assistance measure been undertaken recently (effectiveness and economic impact)?
- How great are the risks of the assistance measure in terms of unintended consequences?
- What is the level of assistance being provided? (all else being equal, assistance measures with significant funding will receive a higher priority)
- To what extent is the assistance 'selective'?
- To what extent is there scope for the measure to distort capital investment?

In addition, some types of assistance, such as that provided by local governments, constitute a complete tranche of work in their own right and will not be considered in the initial review.

Similarly, in applying the evaluation framework to individual assistance measures, the 'proportionality principle' will be used to determine the most appropriate evaluation process and techniques (OECD 1995). That is, the level of analysis will be commensurate with the complexity and significance of the measure and the size of the impacts. For a highly significant industry assistance measure, a full economy-wide assessment of the costs and benefits, including quantitative analysis, may be appropriate, whereas less significant measures may have a greater emphasis on a qualitative evaluation of costs and benefits.

Questions - Prioritising assessment

3.12 Will the proposed prioritisation questions identify as a high priority those industry assistance measures most in need of evaluation? Are there alternatives or refinements to the proposed prioritisation test?

3.13 Based on the likely costs and benefits to the community, what are the high priority assistance measures to reform?

3.3 Developing a monitoring and performance evaluation framework

This inquiry should make a significant contribution to understanding the range of industry assistance measures in Queensland and, through the application of the performance assessment framework, the effectiveness and economic contribution of these measures. The continued application of that framework is integral to ensuring industry assistance is appropriate, effective and efficient over time.

The Queensland Government has a number of existing assessment processes in place (see Box 3.4). For example, agencies are required to report on performance under the financial and performance management frameworks. However, there is very little publicly available information on the evaluation of industry assistance. Performance indicators reported in agency annual reports are recorded at the agency level, rather than by program and often focus on activity or inputs (i.e. number of assistance recipients) rather than outcomes. Performance evaluation should be an automatic part of the policy cycle and should focus on outcomes related to program objectives.

Designing an effective monitoring and evaluation process is more than simply establishing a rigorous performance assessment framework – it must also be supported by the right institutional framework.

Defining the roles and responsibilities of government and its agencies is important for successful evaluation. For instance, monitoring needs to be an element of a program from commencement. Another issue is deciding who should be responsible for monitoring and evaluation — this could be the administering agency, a separate evaluation institution (e.g. the Auditor-general) or an independent reviewer. Each of these options involves a trade-off between greater technical knowledge versus independence. The PC (2010) highlighted a number of other key issues to be considered in developing a more rigorous policy evaluation process (see Table 4).

A good monitoring and evaluation process recognises that evaluation is not costless or necessarily a simple task. The main aim should be to design a monitoring and evaluation framework that assists government decision-making rather than evaluation for evaluation's sake. The resources allocated to monitoring and evaluation should be commensurate with the benefits they produce.

Table 4: PC's principles for monitoring and evaluation frameworks

Principle	***Why?***
1. Design the most appropriate evaluation arrangements.	There are trade-offs between independent, 'in-house' review, or a standing external review process.
2. Maximise transparency — make data and evaluation public and provide for peer review and public consultation.	Provides quality assurance, improves credibility, aids government accountability and facilitates improved evaluation over time.
3. Establish a monitoring & evaluation program, including resourcing, at policy commencement.	Ensures data and evidence are available for evaluation. Will address the paucity of data in some policy areas.
4. Consider sequential policy roll-out, pilot studies, or randomised trials as appropriate.	Useful for policymaking under uncertainty, where there is little settled evidence or where costs of failure are high.
5. Disseminate evaluation and pool results across jurisdictions.	Improves evaluation practices and increases links between researchers and government. Assists in translating vast amounts of 'research' into policy 'evidence'.
6. Ensure evidence is linked to the decision making process.	Provides an incentive for, and discipline on, government agencies to provide rigorous evidence to support policy proposals.

Source: PC 2010 p. 48

Key elements in designing a monitoring and evaluation framework for industry assistance include:

- Monitoring – who will be responsible, what and how frequently data will be collected, how will the information be reported

- Evaluation framework – adapting the performance assessment framework to review existing industry assistance measures and evaluate proposed new measures (including clear performance measures prior to adopting any new measures)
- Evaluation – who should be responsible, what data is needed for evaluation and what forward planning is required for it to be collected, when should evaluation be undertaken and how should findings be reported).

Box 3.4 Queensland Government Assessment Processes

The Queensland Government has various program and policy assessment processes, including:

- Cabinet and budget processes (e.g. submission requirements to the Cabinet Budget Review Committee)
- The Financial Management Framework and Performance Management Framework, which is administered by Treasury and the Department of Premier and Cabinet require government agencies to report on financial and performance outcomes
- The Queensland Auditor-General undertakes financial and performance audits of public sector entities to assess how efficiently and effectively their objectives are being met.

As noted by the QCoA, the various program and policy assessment processes have a number requirements for appraising new policies (e.g. the information required to support decision making prior to adopting a policy) and providing information on aspects of performance. However, most do not have a policy review function focussed on the economic impacts of the policy.

Questions - Developing a monitoring and performance evaluation framework

3.14 What processes are in place for evaluating industry assistance measures?

3.15 Do individual assistance measures have a monitoring and post-implementation review plan? Does it include strategies for data collection to support monitoring and evaluation? If not, how can such requirements be implemented?

3.16 Do existing evaluation processes assess the effectiveness and efficiency of industry assistance measures?

3.17 Can current policy processes be improved to result in assistance measures which are more effective and contribute more to Queensland's economic performance and productivity? If so, how?

3.18 What institutional arrangements should be established to monitor and evaluate industry assistance? Who should be responsible? How should it be reported?

GLOSSARY

C	
CGE	Computable general equilibrium
CSO	Community service obligation
G	
GPC	Gladstone Ports Corporation
M	
MRCF	Medical Research Commercialisation Fund
N	
NCP	National Competition Policy
O	
OECD	Organisation for Economic Co-operation and Development
P	
PC	Productivity Commission
Q	
QCA	Queensland Competition Authority
QCA Act	*Queensland Competition Authority Act 1997*
QCoA	Queensland Commission of Audit
R	
RIS	Regulatory Impact Statement
T	
ToR	Terms of Reference
V	
VCEC	Victorian Competition and Efficiency Commission

APPENDIX A: TERMS OF REFERENCE

QUEENSLAND COMPETITION AUTHORITY ACT 1997
SECTION 10(e)
DIRECTION

Direction

1. The Investigation and Report

I direct the Queensland Competition Authority (the Authority) to investigate and report on Queensland Government Industry Assistance Measures (Assistance Measures) to assess the effectiveness of Assistance Measures (including whether these measures are cost-effective) and the contribution to Queensland's economic performance and productivity made by the Assistance Measures (the Report).

The Authority is to investigate and report on the following matters as part of the Report:

(a) What are the current Assistance Measures in place, including the objectives of each identified measure, administration, performance assessment and funding of the identified Assistance Measures;

(b) An appropriate performance assessment framework to evaluate the effectiveness of Assistance Measures, including whether these measures are cost-effective. The performance assessment framework should focus on the economic impact of Assistance Measures including the contribution made by Assistance Measures to Queensland's economic performance and productivity;

(c) How current Assistance Measures perform under the performance assessment framework and how current Assistance Measures contribute to Queensland's economic performance and productivity;

(d) Options for reform of current Assistance Measures that would increase their effectiveness, including the cost-effectiveness; and

(e) An appropriate monitoring and performance evaluation process for Assistance Measures that could be adopted by the Queensland Government to continually evaluate the performance of Assistance Measures.

2. Powers including consultation

Pursuant to section 12(6) of the Act, the Authority has all the powers under Part 6 of the Act in relation to the investigation under this Direction, including the power under section 172 of the Act to conduct public consultation in relation to the investigation.

3. Timing

The Authority must provide an Interim Report on the appropriate performance assessment framework by 31 August 2014.

The Authority must provide a Final Report on all matters by 30 June 2015.

4. Publication

The Interim Report, Final Report and submissions made in consultation undertaken by the Authority should be made available on the Authority's website.

5. Definitions

For the purpose of this Direction:

"Queensland Government Industry Assistance Measures" includes any measures implemented and/or funded by the Queensland Government, directly or indirectly, that are intended to assist any industry in the State of Queensland, as determined by the Authority as part of its investigation under this Direction.

[redacted]

TIM NICHOLLS
Treasurer and Minister for Trade

31 / 3 / 14

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