Ai GROUP STATEMENT

May 2013

Ai Group 2013-14 Pre-Budget Statement to the Queensland Government

AUSTRALIAN INDUSTRY GROUP

FORWARD

The Australian Industry Group (Ai Group) welcomes the opportunity to submit this pre-budget statement to the Queensland government ahead of the Newman Government's second State budget. Given it comes less than a full 12 months following the newly elected Government's budget in September last year, this submission echoes many of the themes from last year. These themes include enhancing productivity, improving business competitiveness, public sector reform, and further targeted asset sales.

Undoubtedly, recent years have proven to be some of the most challenging in living memory for Queensland industry. Regrettably, all indications suggest more difficulty lies ahead. Whilst previously characterised by a multi-speed economy with the resources supply chain still performing well, it now appears the resources boom will peak in FY2013/14. Such an outcome means the peak will be marked by neither the length nor level expected. While there are indications that the commercial and residential construction sector (as distinct from the civil and engineering construction boom driven by the resources sector capital investment) can expect healthy future growth, we are yet to see signs of confirmation that this is occurring in the real economy.

Ai Group's National CEO Survey[1] conducted this year indicates that, on average, Australia's CEO's are expecting a more difficult trading year in 2013 than experienced in 2012. This research, recorded prior to the floods earlier this year and the announcement of the Federal Election date, revealed CEO's concerns can be grouped around three themes:

- Slowing demand across the economy;
- the high value of the Australian Dollar and the challenges of global competition; and
- rising business costs.

This sentiment is expressed against the backdrop of a tough year for many businesses in 2012, with 58 per cent of CEO's saying 2012 had been worse than 2011. Given this research does not capture the impact of the floods that hit Queensland this year it is reasonable to conclude sentiment has taken a further negative turn following that event. Initial estimates indicate the floods resulted in 53,700 insurance claims worth $555 million, based on data already logged this year.

Additionally, our research indicates that with a Federal election announced for 14 September 2013, pre-election uncertainty is also likely to see a reluctance amongst the business community to commit to longer-term business planning, especially longer term investment (CEO Report). For a specific Queensland snapshot, our research found 63 per cent of Queensland company CEO's expect general business conditions to be weaker in 2013 than 2012. This compares to a national figure of 52 per cent, some 11 points higher

in Queensland. Similarly, there was an 11 point higher reading amongst local CEO's who 'plan to reduce their business employment' at 48 per cent, compared to 37 per cent of CEO's nationally. In Queensland, only 22 per cent expect to increase their business

[1] Ai Group, *National CEO Survey: Business Prospects in 2013: Australia's Gap Year?,* February 2013.

employment in 2013. Our research showed that Queensland was second only to Tasmania in relation to negative CEO sentiment about general business conditions.

Keeping in mind that this research provides a valuable insight into the prevailing milieu industry is operating within, governments should focus the policy-making process on ensuring individual businesses are as unencumbered as possible as they seek to respond to the virtually unprecedented challenges they confront. This pre-Budget Statement both commends the Newman Government on its achievements so far on the reform front and also lays down a detailed set of recommendations that, will materially improve the medium-term operating environment for business and also yield long-term benefits for all Queenslanders in the form of a stronger, more resilient economy.

Over the last year the Newman Government has taken on a large reform agenda. It should now be careful to ensure that the enthusiasm driving these good intentions does not overcome the need for careful consideration of the sometimes unintended impacts of this change in a highly complex environment. Ai Group commends the government for its early recognition of the need for urgent action on red tape reduction and aspects of the QLD Workers Compensation System. Similarly, Ai Group has supported the broad thrust of the Newman Government's efforts on public sector reform. The reduction in the overall size of government, whilst painful, was an important piece of work that has set the State on a path to a stronger long-term economy. Whilst the Queensland government's fiscal repair initiatives pursued in the 2012/13 budget have been important, care must be exercised to ensure cost reductions do not go too far and constrain growth. In relation to the Ministerial Taskforce Report into the VET Sector, Ai Group is broadly supportive of the proposed reforms, in particular the establishment of an industry-lead, independent Skills Commission such as the current 'Skills Queensland'. Ai Group also welcomes the Newman Government's reform approach in regard to the public provider, TAFE, and notes the recent progress made in updating legislation to bring about these changes.

Most of the recommendations in the Final Report of the Independent Commission of Audit are sensible, and we note the Government's response in the *Better Services for Queenslanders Plan*. The carefully considered privatisation of certain assets will be important, equally so the outsourcing of those government functions more efficiently and effectively delivered by the private sector. A critical element of any further asset sales is to work industriously to garner as much broad community support for such a process as is possible. Ai Group is ready to assist Government in making a case for targeted asset sales as part of the public debate that has already commenced about this issue. It is our view that electricity distribution and transmission assets should ultimately not be excluded from this debate.

Australia's productivity and competitiveness are under immense pressure. If the Queensland economy is to thrive, productivity enhancing measures such as education and innovation must be central to the 2013/14 budget. We are currently seeing calendar year 2013 as something of a 'gap year' when it comes to economic growth, with the nation unlikely to exceed a annual growth rate of 2.5 per cent, putting it below trend. This should be seen as a warning bell for policy-makers that the reform challenge is ongoing and in 2013 the effort must be sustained to set Queensland up for the future.

SUMMARY OF RECOMMENDATIONS

1. Asset Sales

- **Privatisation Panel** – Establish a high-level privatisation panel to examine and make recommendations on appropriate asset sales. This group should include representatives from the legal, banking, business and industry sectors.

- **Asset Sales** - Undertake a further tranche of asset sales headlined by the energy transmission company Powerlink and the remaining government-owned energy generators.

2. Productivity Enhancement

- **Infrastructure –** Utilise Infrastructure Queensland and Projects Queensland to prioritise the investigation of new infrastructure funding models to support a proactive and integrated State infrastructure program into the future.

- **Additional Rail Capacity** – Prioritise a major transformational city-building transport project to provide ongoing freight and passenger rail capacity in the State post-2016.

- **Natural Gas Supply** - Note the increasing concern of industry around natural gas supply and production in Eastern Australia, the potential impacts for industry and the Queensland economy, and continue to commit resourcing to support maintained vigilance around the issue by the Queensland Gas Market Commissioner.

- **Local Industry Participation** - Prioritise local industry participation, focusing on development and implementation of appropriate policies to build transparency, fairness and greater opportunity for local business participation in procurement arrangements.

- **Industry Involvement in Skills Programming and Delivery** – Continue to facilitate high levels of industry input to government around skills, training and education programming and delivery, including funding discussions

- **TAFE QLD** - Reform the State's TAFE system to ensure TAFE QLD is a competitive and resilient public provider in a framework where strong pathways exist between secondary school, the TAFE system and onward into tertiary study and employment.

- **VET Funding Reform** – Ensure any introduction of the co-contribution model for the VET system excludes apprenticeships and traineeships, due to costs being passed directly to employers under relevant Federal Awards.

- **School Based Apprenticeships Funding** – Under the User Choice program, retain funding for school based apprenticeships that are aligned with areas of high priority industry need.

- **Queensland Science and Innovation Action Plan** – Facilitate high levels of industry input to government around innovation, in particular ensure industry has a meaningful opportunity to inform development of the *Queensland Science and Innovation Action Plan*. Subject to the plan development being informed by industry, provide funding to implement the *Queensland Science and Innovation Action Plan.*

- **Leveraging Emerging Technology** - Establish a program of assistance and support for Queensland businesses in early release broadband areas. The purpose should be to drive capacity building and early adoption to see a fuller utilisation of emerging technologies to their competitive advantage.

3. Improved Business Competitiveness

- **Reducing the Regulatory Burden** – Continue to work closely with industry to reduce the regulatory burden on Queensland business, including development of detailed implementation strategies to deliver recommendations for the QLD competition Authority's 2013 Red Tape Report.

- **Harmonisation** – Retain existing harmonised legislation. Give consideration to whole-of-economy cost when assessing the costs and benefits of harmonised legislation rather than assessing impacts on certain businesses in isolation.

- **Regulator Behaviour** - Give consideration to examining current regulator practices and how these might be improved to provide administrative relief to business and industry whilst still achieving desired compliance outcomes.

- **Reduce WorkCover Premiums** – Improve the statutory claims management process and introduce a minimum threshold for common law claims to arrest the current trend of increasing premiums. Carefully consider design of new systems and processes to ensure regulatory burden is not unnecessarily increased.

- **Industrial Land Affordability** - Ensure vigilance in monitoring industrial land availability and affordability in Queensland, with decisive action where necessary to address bottlenecks and overcome shortages.

4. Public Sector Reform

- **Efficiency and Savings in Government** – Maintain vigilance around savings in government running costs, including continuing to pursue opportunities for "right-sizing" and outsourcing.

- **Outsourcing** – Establish an effective industry consultative mechanism for the Queensland business community with an interest in government reform to investigate and discuss opportunities for outsourcing.

- **Government Service Delivery** - Continue efforts towards improving Government service delivery, particularly in relation to regulatory reform.

- **Industry Engagement** – Provide genuine opportunities for meaningful industry engagement around government reforms to maximise the likelihood of robust workable solutions that enhance rather than impair business competitiveness.

TABLE OF CONTENTS

Part 1: Overview and Background

This statement is presented in three parts: Part 1 provides a brief overview of Ai Group, the national and Queensland economies, and the current performance of the manufacturing, construction and services sectors. Part 2 outlines industry's key priorities with a focus on four areas - productivity enhancement, improved business competitiveness, public sector reform and asset sales. Part 3 comprises concluding remarks.

1.1 About Ai Group

Ai Group is a peak industry association in Australia which, along with its affiliates, represents the interests of more than 60,000 small, large and medium-sized businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses represented employ more than 1 million employees.

Ai Group are an organisation committed to helping Australian industry with a focus on building competitive and sustainable industries through global integration, skills development, productive and flexible workplace relations, infrastructure development and innovation. The organisation's legitimacy comes also from its role in, and connection with, the broader community.

Ai Group provides practical information, advice and assistance to help industry run their businesses more effectively. It ensures through policy leadership that industry has a voice at all levels of government by representing and promoting industry interests on current and emerging issues.

1.2 Business Environment

Economic activity in Queensland remained flat in the December quarter. State final demand was unchanged from the September quarter to be 2.2 per cent higher over the year, the lowest annual growth rate recorded since March 2010. The stagnation of activity in the December quarter was due to slowdowns in consumption and private investment growth and a decline in public investment. These reflected the Government's commitment to balance the State budget and reductions in mining sector investment as commodity prices weakened amid heightened uncertainty in the international economy. Consistent with overall weakness in the economy, labour market conditions in Queensland remain soft. In March 2013, employment contracted 0.3 per cent m/m to be unchanged from a year ago, while the unemployment rate reached 5.9 per cent, the highest among all mainland States.

The Ai Group performance of industry indexes for the manufacturing, services and construction sectors in Queensland provide further evidence of the tough business conditions that Queensland businesses have been confronting. The performance of manufacturing index for Queensland has been trending down since late 2011. Since the beginning of 2012, the index has remained firmly below the 50-point level that separates expansion from contraction, indicating that activity in the Queensland manufacturing sector has, on average, been declining since 2012. This trend is broadly mirrored in the Queensland services sector, with the exception of the strong rebound in March 2013. The Queensland construction sector has generally been contracting since around mid-2010.

Chart 1: Ai Group performance of industry indexes for Queensland
(seasonally adjusted, 3-month moving averages)

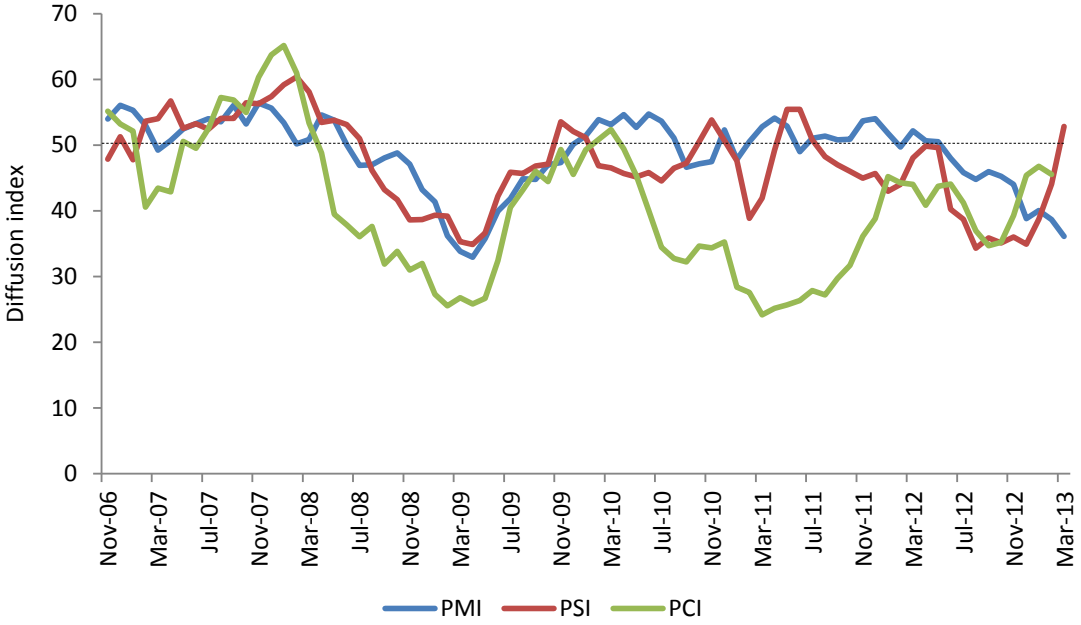
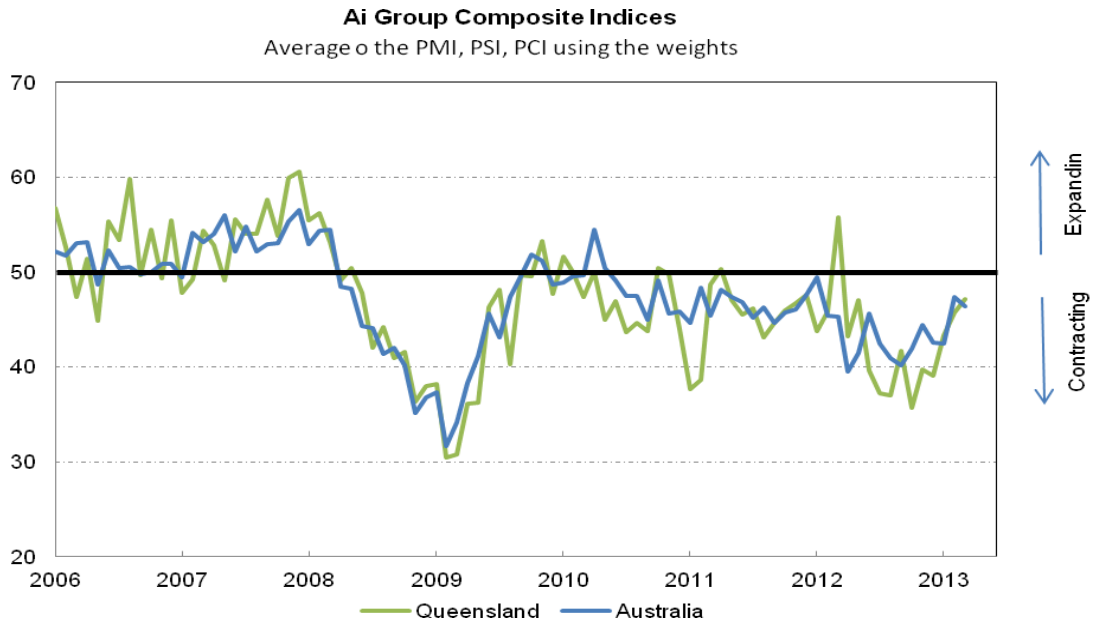


Chart 2: Ai Group Composite indices
Average of the PMI, PSI, PCI using the weights 0.3, 0.6, 0.2



Going forward, the Queensland Treasury and market economists generally expect Queensland's gross state product to grow by around 4 per cent in 2012-13. The Queensland Treasury has revised down its forecasts of gross state product since the 2012-13 Budget published in May 2012 and currently expects growth of 3.75 per cent in 2012-13 and 3.5 per cent in 2013-14. Deloitte Access Economics, which is one of the few economic agencies that produce detailed economic forecasts at the State level, currently expect growth of 4 per cent in 2012-13 and 4.7 per cent in 2013-14. In both cases, growth is expected to be driven by a strong rise in commercial construction and international exports.

1.3 Business Sectors

Ai Group's 2013 CEO Survey explored the views of over 350 CEO's across a range of sectors nationally. Manufacturing CEO's are resigned to another tough year in 2013 – 56 per cent nationally expect business conditions to deteriorate further.

The top five growth concerns among manufacturing CEO's for 2013 are:

- Customer demand (26 per cent)
- Imports competition (16 per cent)
- High Australian Dollar (12 per cent)
- Higher energy costs (9 per cent)
- Wage pressures (9 per cent)

Mining and Mining Services CEO's are the least likely of any major industry group to expect general business conditions to improve relative to 2012. Still over half (52 per cent) expect their sales revenue to increase in 2013.

The top five concerns for Mining and Mining Services CEO's for 2013 are:

- Customer demand (28 per cent)
- Government regulation (20 per cent)
- Skills shortages (17 per cent)
- High AUD (13 per cent)
- Wage pressures (7 per cent)

57 per cent of construction CEO's plan to reduce their workforce in 2013 – the largest percentage of any sector surveyed. This is consistent with this year's 2013 Queensland Major Projects Report commissioned by the Queensland Major Contractors Association and Construction Skills QLD. Released on 20 February 2013, the report concluded that the number and scale of major civil construction projects (those with a total cost of $100 million or greater) in QLD will fall by more than $7.5 billion over the next four years from an historic high of $18.5 billion this year.

Services CEO's are generally more upbeat than CEO's in other sectors. Their top five concerns are:

- Customer demand (22 per cent)
- Wage pressures (15 per cent)
- Government regulation (12 per cent)
- Skills shortages (11 per cent)
- Higher energy costs (9 per cent)

What CEO's are Saying

Across all industries, Australian CEO's told us that in 2013 they expect:

Flat sales revenue
Sales revenue (annual turnover) will improve for 39 per cent of businesses, but decline for 40 per cent of businesses. 21 per cent expect sales revenue growth to be flat, relative to a year ago.

Lower levels of employment
Employment will expand in a quarter of businesses, but more than a third (37 per cent) plan to reduce employment and 38 per cent plan no change to their employment numbers.

Reduced capital investment
Capital investment expenditure will rise for a quarter of businesses, but decline for 31 per cent of businesses and remain unchanged for 44 per cent of businesses.

Slightly higher spending on research and development (R&D)
R&D spending will increase for 21 per cent of businesses, decline for 17 per cent and remain unchanged for 61 per cent. This suggests many businesses place a high priority on innovation and staying ahead of their market, even when they are seeking to reign in costs elsewhere in their business.

Static export incomes
Export income is expected to rise for 18 per cent of businesses, decline for 16 per cent and remain unchanged for 65 per cent. This reflects the high Australian dollar and lack of growth in export volumes since 2011.

Increased use of imported inputs
Imported inputs will increase in 30 per cent of businesses and reduce in 11 per cent. 58 per cent of businesses will not change the value of inputs they import. This may reflect an acceptance among CEO's that the Australian dollar is likely to stay higher for longer into 2013.

Input cost increases, especially for energy
Input costs will rise for half of all businesses, but 8% are expecting their input prices to fall. 82% of CEOs expect the prices they pay for energy will rise further in 2013.

Rising unit labour costs that will not be fully offset by improved productivity
44% of CEOs expect their unit labour costs to increase in 2013, relative to 2012. 13% of CEOs expect them to go down. On labour productivity, one third of CEOs (33%) are expecting to see an improvement in 2013. Of more concern, 13% say they expect labour productivity in their own business to fall in 2013, relative to 2012 and over half (54%) expect no improvement.

Source: Ai Group, *National CEO Survey: Business Prospects in 2013: Australia's Gap Year?,* February 2013.

Part 2: Priorities for Queensland Industry

The Commission of Audit in March 2013 recommended that Queensland's debt be reduced by $25-30 billion on top of savings of $5.5b outlined in the Government's 2012/13 budget to restore Queensland's AAA Credit rating. The Commission's Interim and Final Reports (June 2012 and April 2013), put forward a range of recommendations for achieving this target that have been considered and in the main accepted by the Government.

In addition to acting decisively on these recommendations, Government must pursue a further range of pressing productivity enhancing measures, if the Queensland economy is to grow sustainably into the future. The continued reliance on mining, agriculture and tourism limits Queensland's economic potential and initiatives must be undertaken to build and maintain the viability of a range of other sectors against a backdrop of decreasing productivity and competitiveness. Only through such measures and investments can stronger economic growth occur over the longer-term, lifting fiscal pressures over time.

It is in this context that Ai Group outlines the following priorities:

2.1 Asset Sales

To achieve the debt reduction target outlined by the Commission of Audit and enable Government to concentrate its financial resources on core service delivery, the Commission of Audit recommended Government dispose of certain businesses, especially in the energy sector. In Ai Group's 2011/12 Budget Submission industry called on the previous government to give consideration to a further tranche of asset sales headlined by the energy transmission company Powerlink, along with the remaining government-owned energy generators. Notwithstanding the clear benefits, and the success of previous asset sales (Port of Brisbane lease, Queensland Motorways, Abbot Point Coal Terminal, Forestry Plantations Queensland and float of QR National), the Bligh Government ignored these prescriptions and to date, regardless of further calls for this action in the Ai Group 2012/13 Budget Submission, the current Government is yet to commit to further asset sales without a mandate from the people of Queensland. Recently bodies such as Infrastructure Australia, the Productivity Commission and CEDA have joined Ai Group in putting forward the benefits of asset sales, particularly in the energy sector.

Further asset sales could help the Queensland Government pay off its debt and secure future revenue streams through investment of the sale proceeds. This would improve the State's fiscal position and help it to regain the AAA credit rating whilst likely improving the operational efficiency of the assets. This has been reinforced by findings of the Independent Commission of Audit, which reinforces Ai Group's position on the benefit of a program of further asset sales.

Ai Group continues to strongly support targeted asset sales that deliver increased economic competitiveness and productivity and are calling for a mature and sensible

discussion about asset sales in the Queensland community. Despite the politically charged

debate surrounding previous asset sales they still yielded a very good return to the State's taxpayers.

QR National listed on the Australian Securities Exchange in November 2010, after the successful completion of the second biggest initial public offering in Australia's history. The sale yielded Queensland a dividend of $4.6 billion, critical to reducing debt, delivering key strategic infrastructure investments and establishing a stronger balance sheet.

The 99 year lease of the Port of Brisbane and Abbot Point Coal Terminal yielded $2.1 billion in addition to the buyer taking responsibility for future upgrades of sections of the Port of Brisbane Motorway - a total $2.3 billion worth of value to the State whilst also avoiding expected Port infrastructure expansions valued at $1 billion.

In order to ensure a thorough and robust examination of privatisation options, Ai Group urges the Queensland Government to establish a high-level privatisation panel to make recommendations on appropriate asset sales, the timing of their presentation to market and how the funds derived therein should be used to retire debt and strengthen the fiscal position.

As a priority, this group should be charged with examining privatisation of energy transmission company Powerlink, and the remaining government-owned energy generators. Power assets in other States have been successfully privatised and it is undoubtedly the sensible path for Queensland to pursue.

RECOMMENDATIONS:

- **Privatisation Panel** – Establish a high-level privatisation panel to examine and make recommendations on appropriate asset sales. This group should include representatives from the legal, banking, business and industry sectors.

- **Asset Sales** - Undertake a further tranche of asset sales headlined by the energy transmission company Powerlink and the remaining government-owned energy generators.

2.2 Public Sector Reform

Against a backdrop of very significant budgetary constraints, the Queensland Government also needs to curtail expenditure in addition to selling assets. Over 12 months ago Ai Group noted the need for a renewed focus within the Queensland Government on public sector renewal, streamlined service delivery, coupled with a focus on achieving increased efficiencies in the operation of Government departments. One of the recommendations made to the previous Government at this time was to reduce the size of the public sector by 5% over a three-year period.

Given this, industry commends Government for its 2012 reforms to trim the Queensland Public Service including the overall reduction in the number of public servants. After

growing by 53,360 FTE or 35 per cent[2], since June 2002, the Queensland Public Service in 2012 experienced its first decline in ten years. Data from the Queensland Public Service Commission indicates in Q4 2012 alone, the Queensland public service[3] decreased by 6,357 FTE (3.15 per cent). The Independent Commission of Audit's Final Report noted that traditionally, Queensland's public sector has been larger than other states with State government expenditure as a share of GSP increased significantly, and the gap over New South Wales, Victoria and Western Australia has from a low in 2003-04.

Whilst this downsizing has been achieved quickly, in executing these reforms Government needs to be mindful to retain public sector talent so that robust policy development and execution capability can be maintained within the public service. A strong Queensland economy demands an effective and efficient public service. Industry interacts with Government in a range of areas and the standards of service provided by government agencies are important in helping businesses grow and prosper. Government must focus on rebuilding policy development capability within the public service to ensure robust policy development underpins critical decision making in what is a trying period for government, businesses and the economy. Many businesses report concerns in relation to their engagement with government officers and their lack of understanding of the everyday realities facing business.

Similarly, priorities for innovation and productivity need to extend to the public service's own activities and operations. Queensland needs a modern, flexible, clever and responsive government and the public service needs to be a leader in innovation and best practice. In this regard, Government should prioritise restructuring traditional processes, matching technology investments to these changes and managing projects responsibly to ensure an overall return on investment and delivering savings in government running costs.

The Commission of Audit[4] notes that to ensure the future sustainability of both the State's balance sheet and operating statement the State should review all current service delivery with a view to adopting higher productivity mechanisms, almost certainly with a greater reliance on private sector delivery. As championed by the Commission of Audit, opportunities for outsourcing should be considered – in this regard establishment of an effective industry consultative mechanism for the Queensland business community with an interest in government reform, including investigating and discussing opportunities for outsourcing, is strongly recommended.

RECOMMENDATIONS:

- **Efficiency and Savings in Government** – Maintain vigilance around savings in government running costs, including through continuing to pursue opportunities for "right-sizing" and outsourcing.

[2] Queensland Public Service Commission, Queensland Public Service Characteristics 2011-12, June 2012.
[3] Queensland Public Service Commission, Queensland Public Service Quarterly Profile as at December 2012.
[4] Commission of Audit, Executive Summary to the Final Report, March 2013.

- **Outsourcing** – Establish an effective industry consultative mechanism for the Queensland business community with an interest in government reform, including to investigate and discuss opportunities for outsourcing.

- **Government Service Delivery** - Continue efforts towards improving Government service delivery, particularly in relation to regulatory reform.

- **Industry Engagement** – Provide genuine opportunities for meaningful industry engagement around government reforms to maximise the likelihood of robust workable solutions that enhance rather than impair business competitiveness.

2.3 Improved Business Competitiveness

With some Queensland businesses still recovering from the extreme weather events of January 2011 and February 2013, and others facing challenges from a high Australian Dollar, cheap imports, weak domestic demand and growing global economic uncertainty, Government must focus on creating the right environment for driving economic success in the State. This will be achieved, in part, through reductions to the cost of doing business in Queensland.

In an environment where businesses are struggling, reducing the cost of doing business can be a critical form of relief and a catalyst to reinvigoration. In our 2012 pre-Election Submission the Ai Group called for a staged program of improvements to the State's tax system to re-build Queensland's competitive position. Ai Group commends the subsequent decision by the new LNP government to increase the tax-free threshold for payroll tax from $1m to $1.6m.

Ai Group commends the Queensland Government's commitment to reducing the **regulatory burden on business** by 20 per cent and supports the intent, and majority of measures, identified to reduce unnecessarily burdensome or duplicated State and local government regulation outlined in the Queensland Competition Authority's (QCA's) *Measuring and Reducing the Burden of Regulation* - Final Report (February 2012).

Red tape is consistently raised by industry as one of the top issues impacting business. The average Queensland business deals with 9 regulators annually, spending around 6.5 per cent of their total annual expenditure on regulatory compliance. An Ai Group / Deloitte *National CEO Survey: Business Regulation* released in September 2011 found that

Queensland businesses face the largest direct compliance costs in Australia, spending on average 17.8 hours per week on compliance activities.

The regulatory environment plays a critical role in business innovation and growth. At a time when Australia's productivity performance is lagging behind major competitors, 57 per cent of the State's businesses report regulation is a barrier to innovation. Whilst business appreciates the need for appropriately targeted, well-drafted legislation around critical

areas, Queensland must become smarter about how and when regulation is delivered to ensure Queensland businesses are not put at a competitive disadvantage.

Regulatory compliance pressures are more acutely felt at a time when many Queensland businesses are not necessarily in the fast lane of the resources boom – and it is times like these when removing red tape can make a difference to business survival.

In addition to identifying burdensome regulation already in place, Government must also focus on improving regulatory processes and working more closely with industry around putting new regulation in place. There is also significant room for improvement around levels of consultation and consultation processes and implementation. In this regard there is a strong desire from industry for:

- appropriate and reasonable consultation with government around new legislation and/or regulatory reform; and

- timing of commencement to minimise industry impacts and support business compliance.

Whilst government plays a legitimate role in putting regulation in place (for example, to protect public safety, to ensure a level playing field between firms, to protect consumer rights and to protect local amenity and environmental values) the government can do much better in how and what it regulates.

Ai Group commends government for its red tape reduction activities including the latest tranche of greentape reduction which saw the removal of 20 environmentally relevant activity (ERA) thresholds from 31 March 2013. The changes mean that more than 9,400 small business operators, many of them manufacturers, will no longer need to apply for an environmental licence or submit an annual return. This brings Queensland into line with systems in other Australian States. Removal of the Waste Levy also eased the burden on business.

Ai Group also strongly supports the QCA's February 2013[5] red tape reduction recommendations including:

- Requiring all agencies to report on their red tape burden on business;

- requiring departments to submit Regulatory Impact Statements for an assessment of their adequacy before releasing them for consultation;

- introducing sunset clauses in all legislation with departments to justify the benefits of extending the legislation and impact on business (as opposed to the current system where legislation generally continues automatically with intermittent review); and

[5] Queensland Competition Authority, *Reducing the Burden of Regulation - Final Report,* February 2013.

- establishing an office where businesses can directly raise their red tape concerns for investigation.

Ai Group also supports identification of certain areas for prioritised further investigation including investigation relating to the workers compensation system (however it is unclear if this work, charged to the Attorney General, relates to the review currently underway led by the Parliamentary Finance and Administration Committee). Ai Group is concerned, however, that harmonised legislation has been identified as a priority for review. Due to the benefits to business existing harmonised legislation should be retained.

Harmonised legislation creates significant efficiencies and savings for businesses, especially those businesses operating nationally or close to and across State borders. Government currently appears closely focused on the implications of harmonisation for small business alone (Small Business Harmonisation Survey). Due to the complexity of the economy, and the inter-dependency between small and large business, Government should instead give consideration to the whole-of-economy cost when assessing the advantages and disadvantages of harmonised legislation, rather than assessing impacts on certain businesses in isolation.

Table 3: Direct costs of business regulation

	New South Wales	Victoria	Queensland	South Australia
	Average number of hours per week			
Time spent by employees	12.4	12.0	17.8	14.6
	Average percentage of total business expenses			
Outsourcing costs	3.3	3.1	3.6	2.7
Government fees and charges	2.5	2.5	2.9	2.7
Total	**5.8**	**5.6**	**6.5**	**5.4**

Source: Ai Group Survey, 2011

Table 4: The 10 most time consuming areas of business regulation (Share of the total number of hours spent per week)

	New South Wales	Victoria	Queensland	South Australia
OH&S and workers compensation	13.1	12.8	15.4	12.9
Other employee-related regulations	10.5	12.1	10.2	12.0
Trading across national borders	12.3	10.8	11.2	8.1
Consumer protection regulation e.g. inspections & labelling	11.3	10.7	10.1	12.1
Health and food safety regulations	10.3	10.0	8.7	5.6
Corporate governance regulation	9.1	8.7	8.9	10.2
Paying taxes	8.7	9.0	9.7	10.6
Trading across state borders	8.3	9.1	9.0	8.0
Other environmental regulations	8.4	8.7	8.2	10.0
Paying fees and charges	8.0	8.2	8.5	10.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ai Group Survey, 2011

Frequently overshadowed by the focus on red tape reduction, the importance of **regulator behaviour** should not be overlooked in terms of impacts on and costs for business. In tandem with government's current focus on red tape reduction government should give consideration to looking at current regulator practices and how these might be improved to provide administrative relief to business and industry whilst still achieving desired compliance outcomes. As a fundamental principle, regulators should all share a common objective of allowing, and encouraging, economic progress and carry out their protective role within that context.

Businesses generally should feel encouraged to invite a regulator into their premises. Regulators should have this as a KPI and it should be measured through stakeholder surveys. Other best practice regulator behaviour is outlined in Figure 1.

BEST PRACTICE REGULATOR BEHAVIOUR

- Regulators should always explain what they are there to do and what they are looking for, including the compliance behaviour they are seeking to observe.
- Regulators should have a consistent narrative that explains their objective and shows the role of every interaction (visit, notice, prosecution) in the context of the overall task of influencing behaviour.
- Interactions should not be adversarial or personalised.
- If an inspection is undertaken following a third party complaint (by an employee, union or member of the public etc.), the regulator should not prejudge the situation and act as if the alleged breach has occurred, or the facts alleged are true, until they are shown to be true.
- Inspectors should act respectfully towards SMEs, understanding the limitations of a small management team, but conversely not assume they are too unstructured to understand compliance duties or assume they will not have systems in place to meet them, until proven otherwise.
- Businesses should not be made to feel that they will be disadvantaged if they take responsibility for adverse incidents and seek ways to immediately learn from them and avoid them in the future. Taking responsibility should not be equated with accepting blame.
- Inspectors should not be afraid to admit that they don't have particular technical expertise, and should call for assistance, rather than bluff their way through.
- Inspectors should actively acknowledge positive efforts, improvements or voluntary over-compliance by duty-holders.
- Inspectors should acknowledge, respect and try to be consistent with rulings, notices or observations made to that business by other inspectors from the same regulator by another regulator dealing with the same issue (e.g. a similar regulator in another state). Inconsistency undermines authority.
- Internal review processes or appeal mechanisms should be openly communicated. Inspectors should actively encourage businesses to use them if the business does not understand or agree with regulatory action taken or the reasons given for it.

BETTER REGULATION PRINCIPLES

- Principles of regulation:
  - transparent
  - accountable
  - proportionate
  - consistent
  - targeted
- All regulations should be simply written, so they are easily understood, implemented and enforced.
- No inspection should take place without a reason.
- Businesses should only have to supply information that is necessary and unavailable through other sources.
- Claims of reduction in regulatory burden should be externally validated by a process that includes industry.

Workers compensation premiums are a further area of concern to industry. Whilst Ai Group welcomes the Government's decision to bring forward the scheduled 2014 review of the Queensland Workers Compensation Scheme, industry does not share the Commission of Audit's view[6] that increased premiums may be an appropriate option for dealing with potential issues around Work Cover Queensland's capital adequacy.

Ai Group strongly supports a fair and sensible workers compensation scheme that provides access to care and support for the seriously injured and speedy and effective recovery and return for all workers who have suffered an illness or injury at work. Most importantly a workers compensation scheme needs to be efficient, cost effective and fair.

The current scheme has recently lost its historical footing as the cheapest in Australia with a combined premium increase of 26% over the last three years. Whilst the State currently has the second cheapest premiums in the country, premiums in Queensland have been increasing.

The Commission of Audit noted that WorkCover Queensland's capital adequacy has been under pressure due to increased claims and a volatile investment performance. The Commission of Audit Interim Report suggests that if this position deteriorates further the State may be required to commit additional funding and/or request WCQ increase contribution rates to restore its target level of solvency. Ai Group considers it extremely unfair and counterproductive to lump the burden of any future deficit directly onto employers. Ai Group is confident that by improving the statutory claims management processes and introducing a minimum threshold for common law claims that these measures can potentially yield significant savings which may allow premiums to be decreased. Ultimately if QLD is to remain competitive a return to the lowest premiums nationally is an appropriate target.

In addition to premium increases, Ai Group's August 2012 submission to the Parliamentary Finance and Administration Committee advocated introduction of a minimum threshold for common law claims, and raised concerns in relation to the increase in secondary physiological claims. A more recent submission (March 2013), also based on extensive consultation with members, responds to a proposal put forward by Q-Comp, with regard to the employer excess payment, to amend the legislation to remove the present obligation to notify all injury claims and substitute a system where low impact and uncomplicated claims can be managed by the employer themselves (at no cost to the WorkCover scheme). Member feedback suggests that whilst such a scheme may be beneficial for larger, well resourced businesses it could comprise a significant, unreasonable and potentially unworkable administrative burden for small business. Accordingly, Ai Group cautions against adopting such an approach without prior thorough investigation due to the significant potential for unintended outcomes. A hybrid model is instead suggested for further investigation.

In a 2010 survey conducted by Ai Group, **industrial land affordability** was identified by Queensland industry as the most significant infrastructure issue important to business growth in the state, cited by more than one-in-five (21.5 per cent) respondents. This is a

[6] Commission of Audit, *Interim Report to the Queensland Government*, June 2012.

more pronounced issue in Queensland than other states. Since this survey, anecdotal evidence suggests industrial land availability continues to be one of the most important issues for industry. This has been emphasised by 2011's natural disasters which affected some of the State's most strategic industrial land. The vulnerability of these areas highlights that ongoing vigilance will be required to ensure adequate levels of suitable, flood free and strategically accessible land are set aside for industry. This will be particularly important in the future due to the potential for increased pressures from urban encroachment driven by residential construction in flood-free locations.

Queensland is the base for a significant number of manufacturers who are experiencing very challenging business conditions. Ai Group strongly recommends that the QLD Government use the 2013-14 Budget to increase funding for well-targeted programs to build business competiveness, primarily by improving the capability of QLD industry.

Given that manufacturing remains a huge part of the QLD economy there is a very strong argument for the Government to provide greater resources to the sector. Businesses have, for some time, been informing Ai Group that they were making or were considering making sizeable redundancies. Or, in other cases, companies were reducing hours of both fulltime employees, and especially contractors, who still remain employed but were under-employed. This was not being recognised in the official employment figures.

Telephone calls by Ai Group members to our national call centre have increased strongly in relation to redundancy advice, rising by almost 200% in some months from 2010 and by around 50% from some months in 2011. More worryingly, these calls have continued to increase through each month of 2012 and there is no reason to suggest this will not continue in 2013. The main sectors registering an increase in redundancy related enquiries are metals manufacturing, technology, construction and machinery and equipment. This is a picture which the QLD Government and Treasury must be mindful of and which we suggest cannot be ignored. Many of those manufacturing companies making redundancies are in seriously difficult circumstances and in many cases are in a tailspin which cannot be averted. However, we encourage the Government to recognise that assistance must be provided to other companies which are not terminal and will need assistance, before they too are in difficulty.

Finally, Ai Group commends the Government's forthcoming trade missions to China, Hong Kong and Taiwan. Helping Queensland business identify investment and export opportunities will be key to maintaining the competitiveness of Queensland business, especially where a focus is placed on opportunities in emerging economies.

RECOMMENDATIONS:

- **Reducing the Regulatory Burden** – Continue to work closely with industry to reduce the regulatory burden on Queensland business, including in development of detailed implementation strategies to deliver recommendations of the QLD Competition Authority's 2013 Red Tape Report.

- **Harmonisation** – Retain existing harmonised legislation. Give consideration to whole-of-economy cost when assessing the costs and benefits of harmonised legislation rather than assessing impacts on certain businesses in isolation.

- **Regulator behaviour** - Give consideration to examining current regulator practices and how these might be improved to provide administrative relief to business and industry whilst still achieving desired compliance outcomes.

- **Reduce WorkCover Premiums** – Improve the statutory claims management process and introduce a minimum threshold for common law claims to arrest the current trend of increasing premiums. Carefully consider design of new systems and processes to ensure regulatory burden is not unnecessarily increased.

- **Industrial Land Affordability** - Ensure vigilance in monitoring industrial land availability and affordability in Queensland with decisive action where necessary to address bottlenecks and overcome shortages.

2.4 Productivity Enhancement

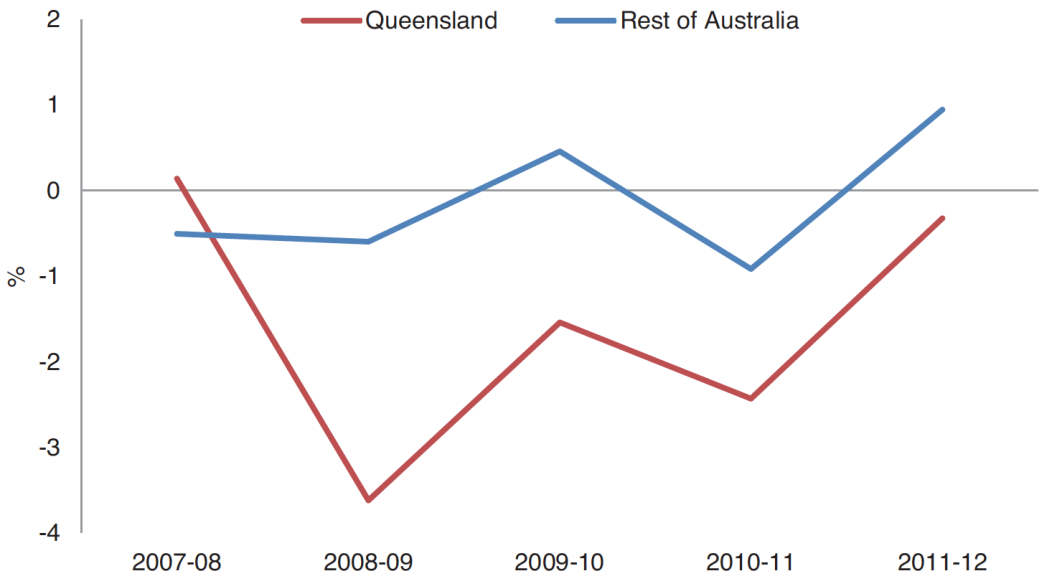
Australia's **productivity** and competitiveness is under immense pressure. After accelerating dramatically during the 1990's, Australia's productivity performance has deteriorated significantly in recent years declining by 1.2 per cent per year since 2003-04. Queensland's productivity has fallen further and is now lower than the level recorded a decade ago[7]. National complacency around this decline has been attributed to the poor performance being masked by high terms of trade created by the Australian resource booms. Australia's economic prospects will deteriorate significantly if the decline in our productivity growth performance is not addressed. As Australia's population ages we will be facing increasingly significant challenges around this - with productivity relied on to do more of the 'heavy lifting'.

The Commission of Audit shares Ai Group concerns, warning that Queensland can no longer rely on population growth, increased workforce participation and the development of the State's mineral resources to drive its economic growth into the future. Importantly, they estimate the State's per capita economic growth rate over the coming 40 years will be significantly lower than that of the last quarter century.

[7] Commission of Audit, Final Report, March 2013.

Given this environment, it is strongly recommended that the Queensland Government use the 2013-14 Budget to increase funding for targeted programs to enhance productivity. Reversing the decline in our productivity performance will require improvements to education and training, strong infrastructure investment, a heightened innovation effort including technology "readiness" and entrepreneurship and flexibility so that businesses can leverage emerging opportunities.

Multifactor productivity growth, original



Source: Queensland Treasury and Trade

Ai Group commends government on the establishment in 2012 of Infrastructure Queensland and Projects Queensland. Business innovation and overall productivity are all boosted by high quality infrastructure – precursors essential to enhanced global competitiveness. Ai Group strongly recommended government utilise the 2012-13 Budget to fund investigation into structured public-private partnership policies to support delivery of a strategic program of **infrastructure provision** that caters to the State's growing population and emerging climatic patterns. Given the constrained fiscal circumstances of State and Federal Governments a well argued and reasoned approach to asset sales, developed in consultation with industry, could allow government to proceed with a second tranche of sales which could yield a significant 'fiscal flexibility dividend' that could be partly utilised to fund critical infrastructure.

Since 2007-08, more than $60b has been invested in infrastructure in Queensland[8]. Maintaining this commitment is not only important for maintaining levels of economic activity and employment, but also to build the future capacity of the Queensland economy. In 2009 53.2 per cent of Queensland industry reported significant positive flows from the State's infrastructure program. This is in sharp contrast to much lower figures in other states.[9]

Whilst the last decade has seen significant investment in infrastructure projects that have made serious inroads to the State's previous infrastructure shortfall, the Queensland budget is now in deficit with a return to surplus not expected until 2014-2015. Despite increasing difficulties around infrastructure funding, Government cannot afford to become complacent about the infrastructure required to support future growth. Whilst budgetary constraints will make it extremely challenging for government to maintain capital program delivery at a comparable to recent level using traditional funding models, continued infrastructure provision will be key to future economic growth. Accordingly, it is increasingly critical that **long-term private sector investment in infrastructure** be more urgently investigated.

This year's *2013 Queensland Major Projects Report* (Queensland Major Contractors Association and Construction Skills QLD), released in February 2013, demonstrated private sector investment is also starting to taper. Overall the value of major engineering construction projects (those with a total cost of $100 million) in Queensland will fall by more than $7.5bn over the next four years from an historic high of $18.5bn this year, as resources activity peaks.

As Australia struggles to increase productivity, the critical role of infrastructure should not be overlooked. We need to utilise existing infrastructure efficiently and effectively and ensure it is appropriately maintained and fit for purpose. In a 2010 Ai Group survey of industry[10], Queensland was second only to New South Wales in the level of concern in relation to state and national highways and local road infrastructure. In Queensland, industry viewed State and National Highways and Local Road Infrastructure as the second and third most significant infrastructure related constraints on growth. Urban congestion is already identified as a major constraint on productivity though there are inconsistent figures around the likely extent of impact. Road congestion in all Australian capital cities was estimated to cost $9.4 billion in productivity in 2005, expected to rise to $20 billion by 2020 if left unchecked[11]. In addition to Ai Group's concerns regarding congestion impacts on productivity, as outlined above there continues to be an immediate need to commence a project to provide ongoing freight and passenger capacity in the State post-2016, including for the broader productivity benefits major infrastructure projects provide for the economy.

[8] QLD Government's 2011 Submission to Infrastructure Australia (November 2011).
[9] Ai Group, The State of Industry: Report on major issues confronting industry and constraining growth (2010).
[10] Ai Group, The State of Industry: Report on major issues confronting industry and constraining growth (2010).
[11] Department of Infrastructure, Transport, Regional Development and Local Government, The State of Australian Cities 2010 Report (March 2010)

In January, Queenslanders faced yet another natural disaster when Ex-Tropical Cyclone Oswald swept through parts of the state causing high winds and major flooding, echoing the severe weather events in January 2011. The State was hit hard with 53,700 insurance claims worth $555 million already lodged this year. Bundaberg, Gladstone and Gympie were worst impacted with 2011 levels significantly exceeded in some areas and extensive damage done to residential and commercial properties and in many cases, recently repaired major infrastructure.

With damage to roads and bridges of around $1.5 billion and a total damage bill of around $2-3 billion, the impacts were less significant than 2011's $6 billion repair bill. Statewide, apart from the direct impacts of inundation, impacts on industry related to damage sustained to the east coast gas pipeline which severely limited operations of a number of very large regional businesses, along with extensive electricity outages (up to 5 days in parts of Brisbane and longer in the worst affected regional areas) and supply chain interruptions.

In relation to energy infrastructure Ai Group commends the long term view taken by the Queensland Government on electricity, demonstrated through the release in December 2012 of the Government's *30 Year Electricity Strategy Directions Paper*. Ai Group's submission encouraged government to:

- note the potential unintended consequences of LNG export industry, particularly for energy intensive manufacturers and resource processors;
- fully participate in the COAG reforms to the electricity market and regulation (including price deregulation, time of use pricing, potential arrangements for smart meters and the commencement of the National Energy Customer Framework).The Queensland Government has reserved its position on these matters pending the outcome of its own processes, including the present 30-year strategy review;
- remove retail price regulation and replace it with regular monitoring of customer outcomes and changes in the wholesale, network and retail sectors; and
- consider privatisation of Queensland's electricity generation assets, particularly its network businesses.

In relation to electricity pricing, Ai Group welcomes the QCA taking into consideration Ai Group's concerns, raised since 2011, that removal of certain existing tariffs (e.g. Tariff 37), without a reasonable transition phase, would seriously impact the competitiveness of many QLD businesses. In this regard the seven year transition period proposed for most tariffs in this year's price determination is welcomed. Ai Group also supports the proposed one year transition period for those tariffs where moving to a cost reflective tariff is not a big financial leap.

Natural gas supply and prices have been of increasing concern to Ai Group and members over the past year, and the issue is now taking on even greater urgency due to public concerns about coal seam gas (CSG). The coming boom in liquefied natural gas (LNG) exports from Queensland entails several important changes:

- Gas production will have to ramp up dramatically to meet export commitments. When fully operational, Queensland LNG terminals will liquefy around 2,000 petajoules of gas annually. All industrial, household and electricity sector demand for gas currently amounts to just 1,000 petajoules annually. The increase is coming largely from CSG production in Queensland.

- Higher demand and the depletion of low-cost conventional gas resources means that production costs will rise, as more expensive resources (requiring more drilling and more capital) are required to meet demand.

- Most significantly, the availability of an export channel to the East Asian gas market, where gas is priced against oil and is an expensive commodity, means that producers will expect an export parity price from domestic customers. Views differ on how far prices will rise, but is plausible that wholesale gas prices in 2015 will have reached $8-$9 a gigajoule, up from the average of $3-$4 of the last decade.

Gas consumers are facing an extremely tight market in which it is hard to get new contracts for long term supply and prices are rising steeply. Ai Group has been highlighting these problems for some time. Governments have often taken the view, shared by gas producers, that higher prices would encourage and support greater production, and thus that the current tight market would be only transitional. They raised the possibility that a production boom, combined with changes in international gas markets, would eventually bring domestic gas prices down from the highs they will soon reach.

However, governments are now imposing much tighter and more burdensome regulation and planning processes in response to vocal opposition to CSG development by sections of the community. As a result it looks very plausible that gas production growth will be significantly dented and that the current gas market tightness will persist for much longer than previously suggested. This would have serious implications for supply security for major gas users and could result in even higher prices than currently expected.

Ai Group is currently surveying relevant Australian businesses to assess the state of the gas market. Ai Group urges the QLD Government to take note of the increasing concern of industry around natural gas supply and production in Eastern Australia, the potential impacts for industry and the Queensland economy, and as a minimum, should continue to commit resourcing to support maintained vigilance around the issue by the Queensland Gas Market Commissioner.

A Robust Infrastructure Framework for Queensland

Ai Group urges government to give consideration to the following:

- Maintain a robust program of integrated infrastructure projects that deliver increased productivity
- Utilise existing infrastructure efficiently including by exploring opportunities to improve productive capacity of current networks
- Ensure existing infrastructure is well maintained and fit for purpose.
- Ensure proposed new projects are based on robust research and sound methodology including having regard for emerging challenges such as population growth and a likely increase in the severity of climatic events.
- Utilise new projects as opportunities to showcase sustainable leading edge technology that showcases Queensland research and manufacturing talent and expertise and promotes and incentivises innovation
- Support participation of local firms in government procurement processes for major projects
- Explore opportunities for better tapping into private sector infrastructure funding
- Ensure infrastructure decisions are based on a coordinated and integrated state-wide planning approach

More specifically there should be a focus on new projects that:

- ease congestion - particularly projects that deliver new capacity in the SEQ rail network
- improve access to international gateways - including delivering increased dedicated freight rail capacity on the network to the Port of Brisbane
- improve infrastructure resilience to natural disasters - with a particular focus on a transport network that maintains connectivity and reduces flood isolation

Nationally concern is increasing regarding **diminishing Australian content in major resource and infrastructure projects** in Australia. In this regard, once in a generation infrastructure and resource projects should be leveraged for the benefit of the broader Queensland economy with Australian businesses having full and fair access to supply the goods and services required. Current barriers and distortions frustrating and impeding the full and fair participation of Australian suppliers include:

- how costs are determined (upfront or whole of life);
- uneven weighting of conformity to standards;
- criteria requiring a record of supply internationally; and
- preferences given to suppliers from country of company origin.

These barriers and distortions are exacerbating the intense competitive pressures currently being experienced by local, trade-exposed industries and particularly the manufacturing sector. Ai Group believes Government should commit to adoption and adherence by government agencies to five purchasing principles that could assist industry to overcome these barriers:

- ***Principle 1: Value for Money***

  Value for money looks beyond “least cost” and brings to bear a broader cost-benefit approach that considers whole-of-life costs, including in relation to maintenance, servicing, quality and ongoing supplier relationships.

- ***Principle 2: Clarity, Transparency and Improvement of Processes***

  Procurement processes should be clear and transparent and be subject to ongoing improvement to reduce costs of tendering and access for domestic suppliers, particularly small and medium-sized enterprises.

- ***Principle 3: Full and Fair Access***

  Procurement processes should ensure local suppliers have full and fair to access to supply opportunities under direct government contracts and with prime contractors and for major projects. This includes consistency in relation to conformity with standards and no preferential treatment of offshore suppliers.

- ***Principle 4: Full Opportunities for Local Suppliers***

  Australian suppliers should have full opportunity to compete for the provision of goods and services under government contracts both directly and indirectly through supply to prime contractors. For major projects, a condition of awarding prime contracts and licences should be that local suppliers will have full and fair access to sub-contracting and supply arrangements.

Procurement plans should demonstrate how purchasers will facilitate opportunities for participation by local suppliers. Proactive strategies should be adopted to ensure a strengthened Industry Capability Network (ICN) informs local industry of opportunities and links purchasers with local suppliers. Undertakings by purchasers should be monitored over the life of projects and purchasers should publicise the extent of participation by local suppliers.

- ***Principle 5: Supporting Industry through Effective Planning and Communication***

  Large government purchasing activities and major project plans should be developed in a transparent way to ensure local industry is able to invest sufficiently to participate in major tenders. As much as possible, major procurement activities undertaken by Australian governments should be coordinated and staged to allow businesses scope to invest and achieve the economies of scale by aggregating demand across the federation.

Ai Group proposes that all levels of government need to adopt a principled and coordinated approach (as outlined above) to improve access for domestic suppliers to public sector contracts and to the provision of goods and services for major projects undertaken within Australia.

How Queensland can fulfil the projected **demand for skilled workers** into the future will continue to be a critical question for business, the Government and the wider economy. In particular, Government must put in place measures to ensure Queensland has the skilled workforce needed to effectively deal with the challenges of our multi-speed economy.

There is a strong ongoing need for high levels of industry input to government around skills, training and education. In particular, anecdotal evidence suggests Queensland industry is increasingly moving away from TAFE QLD towards private training providers due to perceptions around responsiveness, training quality and inflexibility around training delivery.

Work currently underway to reform TAFE QLD is welcomed. The Commission of Audit contends that "*the future role of TAFE as a public provider of VET services should be shaped by its ability to compete effectively in a contestable market, by trimming costs and concentrating on areas where it has traditionally held a competitive advantage, such as*

trade training." [12] Whilst Ai Group agrees with the need to achieve system efficiencies it is critical that the viability of TAFE QLD is retained so that that the State has a solid high performing public provider. In undertaking this reform the emphasis should be a quantum lift in quality. It is also essential the reforms take place within an industry framework and that TAFE QLD's ability to deliver a strong public element is not comprised.

Ai Group agrees with the Commission of Audit that current strategies to open the Vocational Education and Training (VET) sector to increased market-based competition

[12] Commission of Audit, Final Report, February 2013.

should be continued. Ai Group continues to support an independent industry-led skills authority driving the development of a more contestable skills market to ensure that funding and resourcing is prioritised in favour of those skills most needed to enhance the productive capacity of the economy, notwithstanding the Government's rejection of the Commission of Audit's recommendation on this point.

Ai Group however disagrees with the Commission's view that, to reduce duplication with the Australian Government in the provision of VET services, the Queensland Government should exclusively focus State investment on certificate level training. Industry identified skill-sets should also be funded by the State. Ai Group also disagrees with Commission's view that asset ownership should be separated from TAFE. There are inherent problems with issues such as third party accesses in a TAFE setting which require further exploration if unintended consequences are to be avoided.

Ai Group does not support the introduction of student co-payment for apprenticeships and traineeships. Whilst generally acknowledging the potential benefits of co-contribution for the broader training system, application of such a system for apprenticeships and traineeships is problematic. Specifically, Ai Group is concerned that under the current Manufacturing Award, any student co-contribution would be passed to employers. In this regard it is argued, employers already make a very significant contribution to the cost of apprenticeships through supervision, on and off the job training, mentoring and administration.

Ai Group supports recent changes to the User Choice 2010 – 2015 Policy, effective from 1 July 2013 which will remove the 100% Government contribution to SATs and align future funding to the priority level of the qualification. Ai Group argues strongly however for retention of 100% funding for school based apprenticeships that are aligned with areas of high priority industry need. Further, industry should be closely consulted on future changes to Priority Lists that would result in changes to the funding levels for particular skill areas.

Adequate levels of language, literacy and numeracy continue to be at the cornerstone of improving productivity and innovation for industry and across the broader QLD economy. In February 2012 Ai Group released its *National Workforce Literacy Project Report – When Words Fail*. This report includes a significant set of findings and policy implications which underline the importance of literacy and numeracy skilling in the workforce. The consultations revealed that 75 per cent of employers say their businesses are impacted by low levels of literacy and numeracy in the workforce. This is not confined to the low skilled and is spread throughout many levels of the workforce. This report adds further weight to the Australian Bureau of Statistics *Adult Literacy and Life Skills Survey* from 2006 that found almost 50% of the working age population do not have the minimum level of language, literacy and numeracy skills required for individuals to meet the complex demands of everyday life and work in the emerging knowledge based economy.

Existing workers at all levels of the workforce require ongoing access to formal retraining and effective work-based learning to address skills shortages and changing skills requirements brought about by new technology, new work processes, increased compliance and quality assurance requirements. Ultimately the main drivers for industry

are to increase productivity and innovation and this can be achieved by up-skilling the current workforce – doing things better and smarter.

High levels of language, literacy and numeracy are required to underpin this. The Productivity Commission has estimated, taking into account a range of variables, that increases in literacy and numeracy could increase total labour productivity by 1.2 per cent. Functional literacy and numeracy skills enable existing workers to successfully perform their current jobs, while higher level literacy and numeracy skills enable workers to do more than their current jobs require – this is especially important in periods of job re-design when workers are required to adapt to the changing demands of the workplace.
To ensure that the QLD economy continues to meet the challenges of the global economy, the QLD Government must ensure that there is funding available to support an increased effort to assist people to attain higher levels of language literacy and numeracy to meet the challenges facing industry in the future.

To compound this issue of low levels of literacy and numeracy in the workforce, a recent report released by Ai Group has found that there is a lack of critical science, technology, engineering and mathematics (STEM) skills among the current and emerging workforce and this is holding back Australian employers in their quest to be more innovative, productive and competitive.

The report *Lifting our Science, Technology, Engineering and Maths (STEM) Skills*, surveyed more than 500 businesses from across the economy. It found that due to a lack of STEM skills, businesses are having particular difficulty recruiting technicians and trade workers (41 per cent of respondents reported difficulty), professionals (27 per cent) and managers with STEM skills (26 per cent). There is also growing concern among employers about the ability of apprentices to acquire the necessary STEM skills to fully contribute to the workplace with previous Ai Group research finding a significant number of apprentices are affected by low levels of literacy and numeracy.

Ai Group has made a number of recommendations to address the issue and believe the QLD Government can act to lift STEM skills for the QLD economy. These recommendations are:

- Lifting teacher quality and adopting more innovative teaching strategies to engage students in STEM learning. This should be for all students K-12.
- Ensure better provision of career advice highlighting the importance of STEM skills for the workforce of the future.
- Increased participation and attainment in STEM related disciplines should feature as a key performance indicator for schools.
- Availability of semester long work placements for new STEM undergraduates in the QLD Government departments and authorities.
- Encourage business related research projects through collaborative partnerships with the universities.

Fundamental to the future of the QLD economy, a highly skilled workforce with high levels of language, literacy and numeracy (LLN) should just not just focus on the existing workforce. All research points to the need for early intervention. Every child that leaves

school should do so with the minimum required level of LLN that will allow them to function in the workforce and contribute to increasing productivity and innovation.

No child should leave the QLD school system with unacceptable low levels of LLN; this should be the challenge and indeed aspiration for QLD as a whole. The QLD Government should aim to have this as its primary objective for every school leaver in QLD. It starts with early intervention and continued support for LLN through the K-12 years.

Ai Group asks that there be adequate investment in the school system to ensure that all young people achieve a minimum level of literacy and numeracy before completing school and that the QLD Government set itself a target to be a world leader in these fundamental skills as well as encouraging excellence and assisting students to reach their full potential. This requires significant investment that will reap enormous benefit in the long term.

In relation to supporting STEM initiatives, Ai Group commends the QLD Government for its Supporting Women's Scholarships program. The program supports women's participation in non-traditional fields and skills shortage areas by providing scholarships of $5,000 per annum (or pro rata equivalent) for the length of the qualification (up to a maximum of $20,000), in traditionally male dominated fields of study.

Having championed the need for a **Queensland innovation strategy** for several years, and partnered with the former government on the roll-out of a number of innovation grant initiatives, Ai Group has been disappointed by the lack of widespread industry engagement around development of the proposed *Queensland Science & Innovation Action Plan*.

Innovation is increasingly recognised as a key source of competitive advantage for small through to large firms, especially in the context of growing competition from globalised markets and low labour cost nations[13]. Accordingly, greater business innovation and productivity is a critical ingredient in supporting long-term economic growth for the state.

Despite the current challenging economic conditions, data suggests slightly higher spending on research and development. Ai Group's recent 2013 CEO Report found that R&D spending will increase for 21 per cent of businesses, decline for 17 per cent and remain unchanged for 62 per cent. This suggests many businesses place a high priority on innovation and staying ahead of their market, even when they are seeking to rein in costs elsewhere in their business (2013 CEO Report, p.5)[14].

There are concerns however, that Australian innovation policy is too focused on a "research driven" approach to fostering innovation. Ai Group views innovation encompassing a wide range of activities that drive change and add value. Innovation encompasses all work directed at developing new products, new processes and new business models. Wealth is created through changes, either large or small, to goods and services, processes and structures. There is an urgent need to build capacity in Queensland companies to normalise innovation as part of everyday business strategy. A

[13] *Innovation – New Thinking > New Directions: A Report to the Ai Group by the Innovation Review Steering Committee* (Oct., 2010).
[14] Ai Group, 2013 CEO Report.

greater focus on a market facing agenda for Australian innovation is urgently required if the core nexus of productivity, competitiveness and economic diversification is to be strengthened.

Several important aspects of current practice in Australian innovation were revealed by a recent Ai Group Innovation Survey, part of *Innovation – New Thinking, New Directions: A Report* to the Ai Group by the Innovation Review Steering Committee, released in October 2010. The report and associated survey found that while businesses mainly innovate by introducing new products/services and improving business processes, adopting new technologies and introducing new skill sets are also significant. The key barriers to innovation were identified as lack of funds, appropriate skills, time and resources. Insufficient tax incentives were also seen as an inhibitor to innovation.

An important aspect of the innovation process is research and development. Manufacturing businesses value the importance of research and development as part of their business growth strategies to become high performing enterprises that are internationally competitive. For example, past research conducted by the Ai Group showed the four most important growth strategies for businesses are related to innovation, capital investment, improving business structures and greater integration into global markets (Table 1). Each of these strategies will involve some form of research and development, whether in terms of designing new products or revising internal business practices to become more productive.

Businesses regard increased incentives for business expenditure on R&D as a policy providing the highest benefit to their own business.

Table 2: Top manufacturing business growth strategies over the next 3 years

Innovation	Improve efficiency of production processes; introduce new products and services; improve supply chain management; introduction of new technology
Capital investment	Raise spending on skills development; greater (physical) capital investment; greater spend on R&D
Business structure	Outsource production to other domestic businesses; concentrate on fewer products and services; alliances/mergers & acquisitions; vertical integration; establish new distribution
Globalisation	Increased sourcing of labour from overseas; outsource production to businesses offshore; develop export markets

Source: Ai Group

In order to lift the number of companies involved in R&D and augment existing initiatives, Ai Group recommends the introduction of an innovation 'Start-Up' program for those businesses with no prior experience in R&D, but with an interest in starting an R&D project. These firms often find it difficult to compete with larger and more experienced firms for government funding which acts as a barrier to involvement. Under such a program,

grants could be provided to companies (on a competitive basis) on a matching dollar for dollar basis, and be used for a broad range of purposes such as purchasing specialist equipment to undertake proposed R&D, to engage a consultant to assist in R&D activity, to employ a scientist or engineer to undertake R&D or to engage the expertise of a university, CSIRO or another research centre.

To assist in generating appropriate levels of funding to boost research and development within industry, Ai Group recommends the launch of a State based Innovation Investment Fund, with significant levels of venture capital (equity) being directed towards manufacturing. This should be undertaken as part of a broad QLD Government policy to address gaps in the venture capital market and assist innovative firms to break out and commercialise their research and development capabilities.

Government is urged to utilise the 2013-14 Budget to fund implementation of a multi-sectoral State-wide innovation strategy (QLD Science and Innovation Action Plan), to drive innovation in Queensland. Such a strategy should focus on delivering the business innovation required to drive productivity growth with a component focussing on innovation in government due to the importance of government showing high-level leadership in this space.

Significant research exists demonstrating that **adoption of emerging technologies** also improves productivity and business competitiveness. A 2011 Ai Group survey looking at reasons businesses invest in technology found that that 73.2 per cent seek to increase productivity, whilst 41.1 per cent invested to expand production or as part of the development of new products.[15]

In addition to investing in business innovation capability, government should give consideration to funding support for businesses to leverage emerging technologies particularly, forthcoming broadband technologies. Such a program would support innovation by assisting the business community to understand and fully utilise emerging technologies to their competitive advantage.

A recent international survey has shown Australia slipping further behind key competitors in terms of our readiness to use and make the most of information technology. The latest *2013 Global Information Technology Survey* produced by the World Economic Forum in conjunction with Ai Group, surveyed businesses in 144 countries on the availability, usage, and impacts of information technologies. In 2013 overall rankings, Australia was 18th, down from 17th place in 2012 and 9th place in 2004.

In terms of IT usage, the international ranking for usage by the Australian community is 15th, followed by Government 19th and by business a disappointing 25th.This reinforces both the need for high speed ubiquitous broadband but importantly, the critical need to invest in lifting the skills needed to gain the greatest benefit from this infrastructure. To address this capability gap, businesses need the confidence and knowledge to invest and Governments need complementary policies in areas like skills, innovation, removing regulatory barriers, cybersecurity and Government ICT procurement and use.

[15] Ai Group Technology Survey (Nov., 2011).

Lifting productivity is front and centre of the economic agenda and ICT adoption is an important part of this challenge. The OECD, for example, estimates that ICT investment accounted for nearly a third of Australia's labour productivity growth between 2000 – 2009.

"There is some good news in the survey showing Australia is getting some of the IT basics right. For example, in 2013 Australia ranks:

- 5th for installation of anti-piracy software;
- 6th for secure internet servers per million of population;
- 6th for the intensity of competition in local markets;
- 9th for government online services; and
- 9th for internet sales to consumers by business.

"However, on measures of Government procurement and promotion of IT, Australia's performance was below average pointing to more opportunities in this area. Australia slipped in 2013 to:

- 58th for government procurement of advanced technologies, down from 36th in 2010-11;
- 46th for ICT use & government efficiency, down from 31st in 2010-11; and
- 39th for government success in ICT promotion, down from 32nd in 2010-11.

"Businesses are looking to all sides of politics for policies that support the 'rollout' of high-speed broadband infrastructure and invest in the capabilities of the community and businesses to take advantage of it. These results highlight why those policies are so crucial," Ai Group CEO, Mr Willox said.

Table 1. Australian Rankings in Global Information Technology Survey

	Network Readiness Index	IT usage rankings		
	Global ranking	Individual	Business	Government
2004	9	14	13	20
2005	11	20	19	16
2006	15	20	22	17
2007	15	20	24	26
2008	14	7	21	9
2009	14	18	21	9
2010	16	20	30	5
2011	17	18	27	6
2012	17	16	22	8
2013	18	15	25	19

RECOMMENDATIONS:

- **Infrastructure –** Utilise Infrastructure Queensland and Projects Queensland to prioritise the investigation of new infrastructure funding models to support a proactive and integrated State infrastructure program into the future.

- **Additional Rail Capacity** – Prioritise a major transformational city-building transport project to provide ongoing freight and passenger rail capacity in the State post-2016.

- **Natural Gas Supply** - Note the increasing concern of industry around natural gas supply and production in Eastern Australia, the potential impacts for industry and the Queensland economy and continue to commit resourcing to support maintained vigilance around the issue by the Queensland Gas Market Commissioner.

- **Local Industry Participation** - Prioritise local industry participation, focusing on development and implementation of appropriate policies to build transparency, fairness and greater opportunity for local business participation in procurement arrangements.

- **Industry Involvement in Skills Programming and Delivery** – Continue to facilitate high levels of industry input to government around skills, training and education programming and delivery.

- **TAFE QLD** - Reform the state's TAFE system to ensure TAFE QLD is a competitive and resilient public provider in a framework where strong pathways exist between secondary school, the TAFE system and onward into tertiary study and employment.

- **VET Funding Reform** – Ensure any introduction of the co-contribution model for the VET system excludes apprenticeships and traineeships, due to costs being passed directly to employers under relevant Federal Awards.

- **School Based Apprenticeships Funding** – Under the User Choice program, retain funding for school based apprenticeships that are aligned with areas of high priority industry need.

- **Queensland Science and Innovation Action Plan** – Facilitate high levels of industry input to government around innovation, in particular ensure industry has a meaningful opportunity to inform development of the *Queensland Science and Innovation Action Plan*. Subject to the plan development being informed by industry, provide funding to implement the *Queensland Science and Innovation Action Plan.*

- **Leveraging Emerging Technology** - Establish a program of assistance and support for Queensland businesses in early release broadband areas. The purpose should be to drive capacity building and early adoption to see a fuller utilisation of emerging technologies to their competitive advantage.

Part 3: Conclusion

The forthcoming period will be critical for industry and the State's economy. Not only will government need to continue its work towards restoring the State's credit rating and positioning the Budget for a return to surplus, it needs to do this in a context of a need to continue building the long term frameworks catering towards building Queensland's economy for the future.

Industry would like to see our elected representatives' work constructively to advance the proposals and recommendations contained in this submission. To do so would be to position Queensland strongly for the future and provide the most robust footing upon which our ongoing prosperity and standard of living can continue to be advanced.

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