Ai GROUP STATEMENT

JANUARY 2015

Queensland State Election Statement

Contents

About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 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 which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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Executive summary

Ai Group welcomes the opportunity to outline our policy proposals to the Queensland Government and Opposition ahead of the upcoming Queensland state election. Business confidence in Queensland remains low in the context of weak growth in business investment, employment and the broader economy. An incoming government will need to work hard to balance fiscal discipline in managing the State’s budget while stimulating much-needed confidence and growth through targeted productivity-enhancing programs and infrastructure investment.

Ai Group supports the sale and/or leasing of appropriate state-owned assets, including electricity network infrastructure. The funds raised by the asset sales should be used to pay down debt or appropriately invested in high-quality productivity-lifting infrastructure projects that meet rigorous cost-benefit analysis.

Of fundamental importance to productivity growth will also be a strong focus on skilling − particularly in the areas of literacy and numeracy and science, technology, engineering and mathematics (STEM) skills; and on driving innovation through collaboration and adoption of new technology by Queensland business.

On behalf of industry, Ai Group calls for the incoming government to target rising business costs that undermine the competitiveness of Queensland industry – including rising energy costs and the high red tape burden notwithstanding the progress made by the current Government in reducing regulatory burdens.

The newly-elected Queensland government should play a leading and constructive role in the important national debates on tax reform and the federation. A key objective should be to reform and reduce state inefficient taxes including payroll tax, stamp duties on property transactions and the selective tax on insurance premiums. Importantly, an incoming government must not ratchet back recent sensible improvements to Queensland’s Workers’ Compensation system that have provided significant relief to industry such as the introduction of a threshold for common law claims.

Both the Queensland economy and the national economy are at a critical juncture. We must find multiple sources of growth, rather than relying solely on resource and energy commodities, as has occurred over the past decade. In Queensland, this transition from mining-led growth to other industries is already underway but government has a key role to ensure conditions are in place to accelerate this transition. This rebalancing is important not only for the strength of the economy but also to improve its resilience. Australia’s exposure to volatile commodity prices has already increased and is set to rise further as mineral and energy exports rise. Similarly our exposure to conditions in a handful of commodity-purchasing countries has climbed and is on a path to climb further.

An important part of the diversification challenge will be doing much more to drive the latent potential of key sectors like manufacturing in Queensland – which is the state’s fourth largest industry, behind mining, construction and health. To date much of government’s focus has been around the “four pillars” of agriculture, resources, construction and tourism. But the fact is Queensland’s industrial base is broad, especially when compared to the other big resources state, Western Australia, and this diversity should be considered as an economic strength of Queensland.

Ai Group would welcome a broader focus on the industry from the incoming Government including on manufacturing, a sector that accounts for a sizeable portion of employment in Queensland, which has been largely overlooked by government in recent times. The State's manufacturing sector comprises 6.2% of Gross State Product, which is in line with manufacturing's share of national GDP. In fact, Queensland has the third largest manufacturing sector in the country, behind only NSW and Victoria, and it is more than double the size of South Australia's manufacturing industry. Rather than seeing manufacturing as the "ugly duckling", we should be focused on the enormous opportunity to transition what is a vibrant sector to deliver its full potential. This has been achieved by many highly successful cutting-edge Queensland manufacturers individually, but at a sector wide level there is much work to be done and governments at all levels need to be onboard.

More broadly, policymakers should ensure Queensland businesses are encouraged to innovate processes and products in order to reduce business costs and find new markets and grow the state's economy. Governments can have an influential role in encouraging innovation by reducing and reforming poorly-designed regulation together with providing targeted incentives for industry to invest.

Finally, Ai Group calls on the next Queensland Government to continue to foster export opportunities for business especially in light of the recently-negotiated free trade agreements with Korea and Japan, along with other agreements currently being negotiated. The Government can continue to maintain the state's trade offices, but also ensure these offices collaborate better with Austrade ensuring that services are focused on industry. This would include greater emphasis on educating small businesses on the opportunities available for their sector to export and access global value chains.

Summary of recommendations

Fiscal Policy

- The newly-elected Government should remain committed to paying down debt and improving the State's fiscal position. But this should be balanced against the need for investments in infrastructure and skills.

Reduce the costs of doing business

Taxes and charges

- The newly-elected Government should fully commit to the Tax White Paper and Federalism White Paper processes and examine how the inefficient state-based taxes and charges on industry can be removed.
- The next Queensland Government should not raise taxes and charges but should at a minimum maintain the state's cost competitiveness.

Red Tape Reduction and Regulatory Reform

- The COAG agenda has changed with changes in governments across the country. Queensland businesses, and indeed businesses nationally, would benefit from many of the harmonisation reforms that have not been completed. We would encourage the next Queensland Government to reinvigorate this process.
- Reduce the frequency of business regulatory reporting requirements to a minimum and establish reliable electronic and web-based regulatory reporting for businesses.
- Minimise the required number of approvals needed for projects and execute approval processes concurrently.
- Integrate and rationalise approvals for all projects by creating an approvals committee with the authority to issue all relevant approvals.
- Work with local government to reduce duplication of regulation across local government boundaries (planning regulations for example) and across state borders (for example the payroll tax harmonisation process through COAG is not yet operational).
- Consider how regulatory agencies interact with the business community with respect to regulatory changes and proposals. Consultation is crucial and should continue but governments need to invest in more efficient and less onerous consultation processes which do not impose an additional burden on businesses.

Workers' Compensation

- That the newly elected Government:
  - maintain the amendments to the Queensland WorkCover legislation as introduced in late 2013 including the common damages claim threshold;
  - continue with the constructive steps taken to reduce the reporting burden in this sector;
  - continue to review the Queensland WorkCover premium model and related options; and

- offer greater support to Queensland employers including by way premium relief in relation to *aggravation injury* claims.

Public Holidays and daylight saving

- That the newly elected Government considers the cost to business and erosion of competitiveness that additional public holidays would bring.
- That the Queensland Labour Day Public Holiday be retained in October to ensure ongoing consistency with NSW, South Australia and the ACT.
- That an incoming government notes the cost to business and erosion of competitiveness brought about by inconsistent time zones across eastern Australia and moves towards a system that will bring Queensland in line with other states.

Infrastructure

- Progress the privatisation of assets in instances when all of the following tests can be met:
  - the sale/lease will deliver increased competition or improved efficiency in asset management;
  - the taxpayer gets a good price in the sale process;
  - there are appropriate safeguards for consumers and businesses in the regulatory arrangements will apply to the sold assets; and
  - funds will be used wisely – either in repaying debt or investing in new productivity lifting infrastructure.
- Maintain a medium and long-term infrastructure project pipeline to boost the State's overall productivity and to provide certainty and opportunity for local business as the mining investment boom continues to fade.
- Establish an independent planning body similar to Infrastructure Australia to undertake thorough cost-benefit analysis of infrastructure projects to further improve the transparency, confidence and rigor around infrastructure planning and prioritization.

Energy Policy

- Fully or partially privatise electricity networks to improve efficiency of operation and to free up capital for reinvestment in other infrastructure needs.
- Consider a downward revaluation of the regulated asset base of the networks to reflect the proportion of assets that are surplus to need. This could be done with or without a privatization. This would reduce state revenue, but would take considerable pressure off energy prices, with the overall economic benefits likely to outweigh the costs.
- If privatization does not proceed, the incoming Government should investigate whether to remove the competitive neutrality payments for networks entirely – in consultation with the Australian Energy Regulator to ensure their regulatory determinations reflect the change – or

alternately, to agree a 'revenue swap' with the Commonwealth to separate the ownership of the networks from the collection of this revenue stream and the associated incentive effects.

- Continue to facilitate gas resource development while maintaining and increasing community confidence.
- An incoming Government should consult, particularly with industry, on cost effective options to expand its energy efficiency activities. This should include working with industry associations such as Ai Group, to provide onsite advice and assistance to help companies identify opportunities to reduce costs and improve productivity.

Ensuring industry operates on a level playing field

- Ai Group recommends that all government agencies including Queensland agencies and major contractors implement an approach that shows a commitment to Ai Group's five procurement principles:

    Value for Money: Value for money looks beyond "least cost" and brings cost-benefit approach that considers quality, after sales servicing and maintenance, ongoing supplier relationships and speed of maintenance repair.

    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.

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

    Full Opportunities for Local Suppliers: Australian based 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, prime contractors and licence holders should ensure that local suppliers have full and fair access to sub-contracting and supply arrangements.

    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.

Industrial land availability and urban encroachment

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

Education and Training Reform

- That an incoming government:
    - maintain and strengthen mechanisms for industry to have a direct voice into policy processes at a senior level;

- develop mechanisms to ensure that quality issues and state-based skilling priorities are communicated to the national agenda;
- the Queensland Government provide an additional 3% to the annual VET budget to 2025 to support the attainment of COAG determined targets;
- support the implementation of a genuine national approach to apprenticeships by collaborating with the Australian government to establish a National Apprenticeship commission or similar entity;
- the elected Government commence discussions with industry and other appropriate stakeholders about the development of further Language, Literacy and Numeracy (LLN) program options;
- the implementation of funding reform to facilitate the achievement of a world-class education system;
- develop and fund major initiatives to lift literacy and numeracy achievement in parallel with the anticipated efforts and activity under the National Foundation Skills Strategy;
- Ai Group supports a review of policy for VET in Schools across all jurisdictions;
- support major initiatives in the school sector and in teacher education to lift STEM subject participation; and
- The Government support a range of measures designed to improve the capability of the teaching profession.

Innovation

- Ai Group encourages an incoming Government to take an active role in improving the innovation environment in the state through considered policy settings and incentives.

Digital Economy

- Continue to deliver programs focused on facilitating business awareness of the opportunities arising from digital technologies for Queensland businesses in early release broadband areas. This should complement Federal initiatives (eg. Digital Business Kits). The purpose should be to highlight and demonstrate the opportunities and drive greater business commitment to capacity building and early adoption to see a fuller utilisation of emerging technologies.

Trade

- Queensland has a strong record in international trade. Ai Group encourages the next Government to draw on the state’s strengths to develop a clear strategy to boost export opportunities of Queensland businesses.

The Queensland Economic Outlook

The Queensland economy is the country's third largest, accounting for around 19% of Australian economic activity in 2014.

While Queensland is traditionally viewed as a mining state, the state's industrial base is broad, especially when compared to the other big resources state, Western Australia (Table 1). The state's manufacturing sector is its fourth-largest industry, behind mining, construction and health, and comprises 6.2% of Gross State Product, which is in line with manufacturing's share of national GDP. In fact, Queensland has the third largest manufacturing sector in the country, behind only NSW and Victoria, and it is more than double the size of South Australia's manufacturing industry.

The state's biggest industry of course is mining, which largely reflects coal and LNG. But the mining industry's share of activity is actually below the national average, sitting at 9.3% of state activity in 2013-14 (in Western Australia, mining accounts for 28.9% and nationally it accounts for 10.4% of activity). Falls in coal prices have hit Queensland hard, with mines closing. But the state has yet to see the benefits of LNG, with many of the major projects only expected to begin producing output over the next few years.

Table 1: Queensland's industry share of Gross State Product

	Queensland	Australia
Mining	9.3	10.4
Construction	9.8	7.6
Health	7.1	6.5
Manufacturing	6.2	6.5
Transport	5.7	4.6
Public admin & safety	5.8	5.2
Wholesale trade	4.8	4.0
Retail trade	4.6	4.5
Finance	5.6	8.2
Professional services	5.1	6.3
Education	4.4	4.4
Real estate services	2.8	2.7
Agriculture	2.3	2.1
Admin services	2.1	2.9
Utilities	3.2	2.3
Hospitality	2.5	2.2
IT & media	1.9	2.7
Other services	1.9	1.7
Recreation	0.6	0.8
Ownership of dwellings	8.3	8.0
Total all industries	93.9	93.7
Taxes less subsidies on products	5.8	6.0
Statistical Discrepancy	0.3	0.3
GROSS STATE PRODUCT	100	100

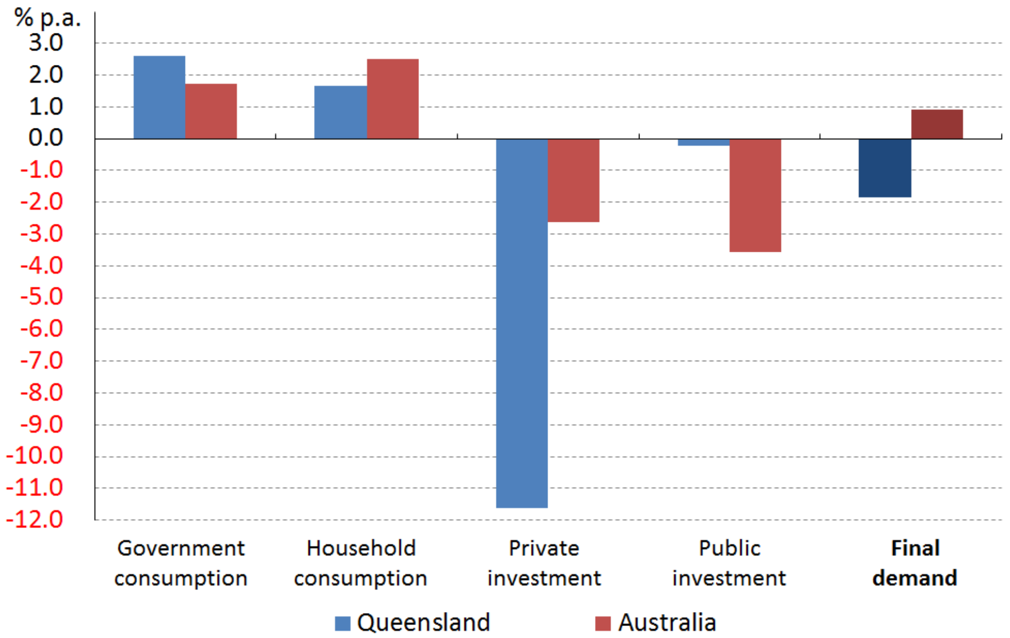
Source: ABS, *State Accounts 2013-14,* Nov 2014;

Queensland has experienced both the benefits and the challenges from the mining boom of recent years. While resource companies will continue to invest in Queensland, engineering investment has slowed. The most recent ABS data, while dated, shows the Gross State Product data grew by 2.3% over the year to June 2014 compared to national growth of 2.5% (Chart 1). More recent data from the *National Accounts* indicates that growth in the Queensland economy has slowed sharply in 2014 as engineering construction has slowed. State final demand (consumption and investment) declined by 1.4% in the September quarter which took growth down by 1.8% over the year to September 2014.

Chart 1: Queensland GSP and Australian GDP, real % change per year

Sources: ABS, *State Accounts 2013-14,* Nov 2014; Queensland Budget, June 2014; Australian Treasury, Budget, May 2014

Chart 2: Growth in Queensland and Australia

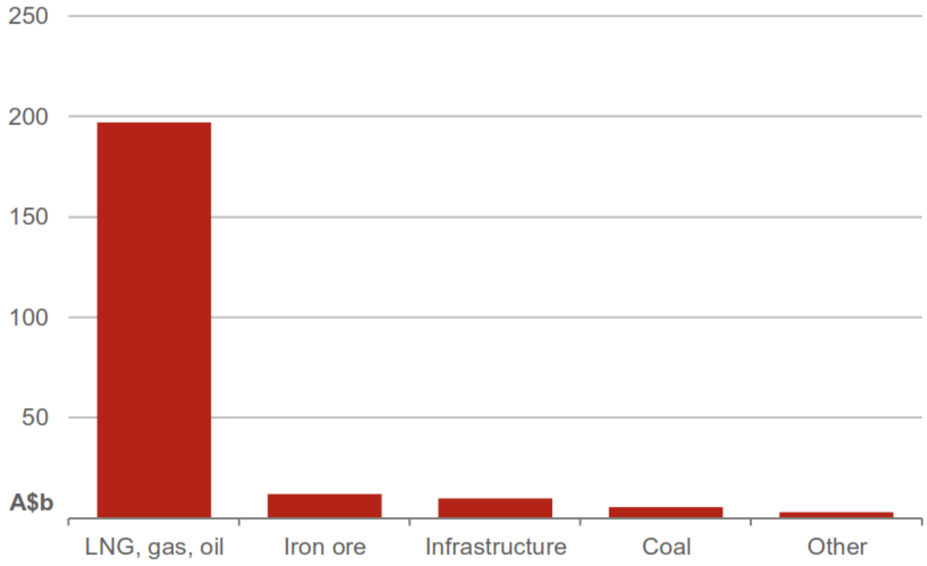


Source: ABS National Accounts *5206.0,* December 2014

However, several major resource projects are still in the construction phase, which will still support activity in the coming years (Chart 3). These include three LNG projects at a value of $63 billion including Curtis Island Project and Australia Pacific LNG. Despite the falls in coal prices, four coal projects worth $3.2 billion are at the committed stage in the Bureau of Resources and Energy Economics Major Projects report, while 26 projects are in the feasibility stage including Adani's

Carmichael Coal Project ($16 billion) which appears almost certain to go ahead but is awaiting the Final Investment Decision announcement.

Chart 3: Value of projects at the Committed Stage by commodity



Source: BREE Resources and Energy Major Projects, October 2014

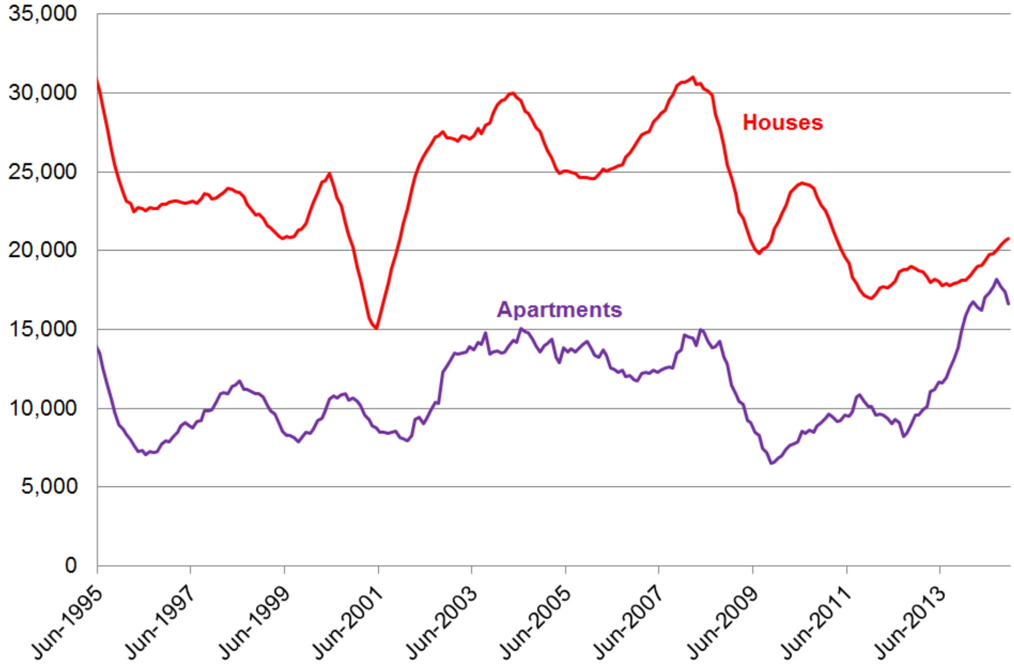
The benefits to Queensland from LNG investment are expected to hit the state in 2015-16 when the majority of the projects begin producing and Queensland Treasury forecast growth of 5% growth in GSP (Table 2). Across the rest of the economy, the lower dollar is expected to provide a near-term boost for sectors like manufacturing as well as tourism and hospitality services, which have strengthened over the past year as evidenced by the pick-up seen in accommodation & food services, and recreation. Low interest rates, together with population growth, are stimulating residential construction in the state after a period of weakness in the building of new homes in previous years (Chart 4).

Table 2: Queensland economic forecasts

% change p.a.	2013/14 (Actual)	2014/15	2015/16	2016/17	2017/18
Qld Treasury (Dec)					
Gross state product	2.3	2	5		
Unemployment rate (%)	6	6	6		
Deloitte Access Economics (Sep 2014)					
Gross state product	3.1	3.0	5.1	4.7	4.5
as share of Australian output (%)	*19.4*	*19.4*	*19.9*	*20.2*	*20.4*
Private housing investment	3.8	11.1	11.3	7.4	3.8
Private commercial construction	-3.1	-8.8	-7.6	-2.9	-4.9
Industrial production	6.8	2.2	7.3	6.6	4.8
Retail turnover	2.8	3.7	3.8	3.4	4.2
International tourist arrivals	0.5	5.0	4.8	5.8	3.4
International exports	8.9	11.5	14.7	8.9	3.5
Employment growth	1.6	2.0	2.6	2.3	1.5
Unemployment rate (%)	6.0	6.3	5.8	5.6	5.6

Sources: Queensland Budget, 2014; Deloitte Access Economics Business Outlook

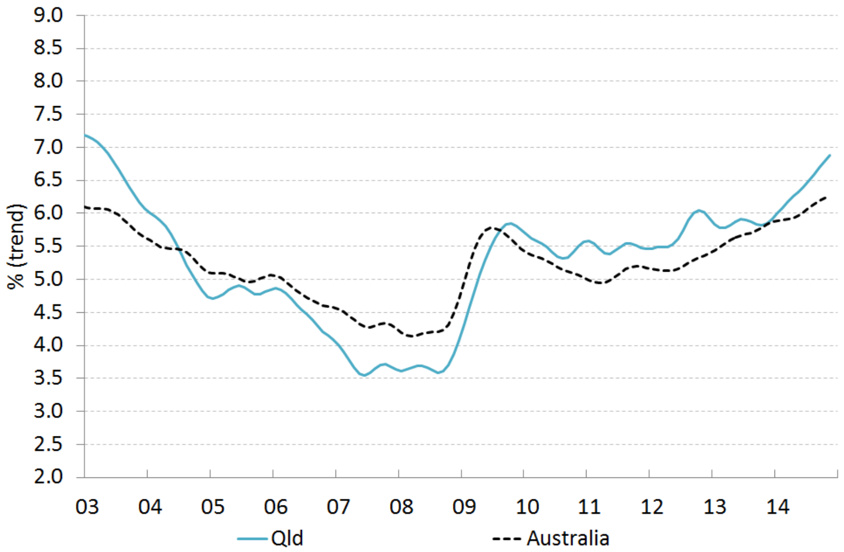
Chart 4: Queensland residential building approvals (rolling annual sum)



Source: ABS

Queensland's labour market has softened over 2014 and continues to be one of the weakest in the country even as most states have experienced a softening in their labour markets (Chart 4). In 2014, employment grew by 1.3% in Queensland in annual terms, compared with national employment growth of 1.9%. Over the year, unemployment lifted to a rate of 6.6% in trend terms in December, up from 5.9% a year earlier. Yet Queensland Treasury forecast the unemployment rate to fall back to around 6% over the coming year.

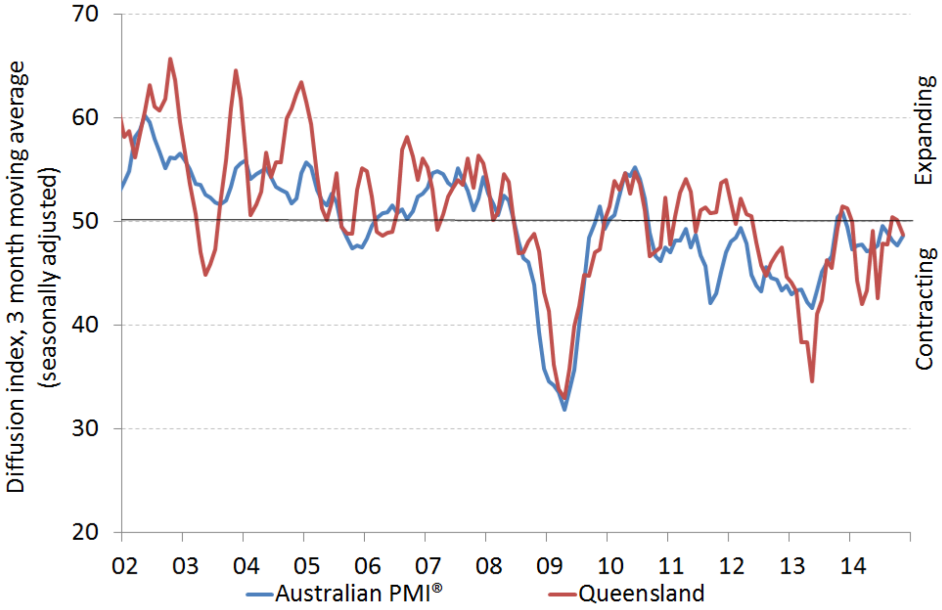
Chart 5: Australian and Queensland trend unemployment rate



Source: ABS 6202.0 Labour Force, Australia, December 2014

The Australian Industry Group's Performance of Manufacturing Index (Ai Group PMI®) indicates that the Queensland's manufacturing industry had been performing in line with trends seen in the national average over 2014. While both indices sat below 50, the level that signals an industry is neither expanding nor contracting, the index has improved from earlier in the year. The recent depreciation in the Australian dollar should provide some support to industry over the coming year.

Chart 6: Australian and Queensland PMI



Source: Ai Group

The Queensland Fiscal Position

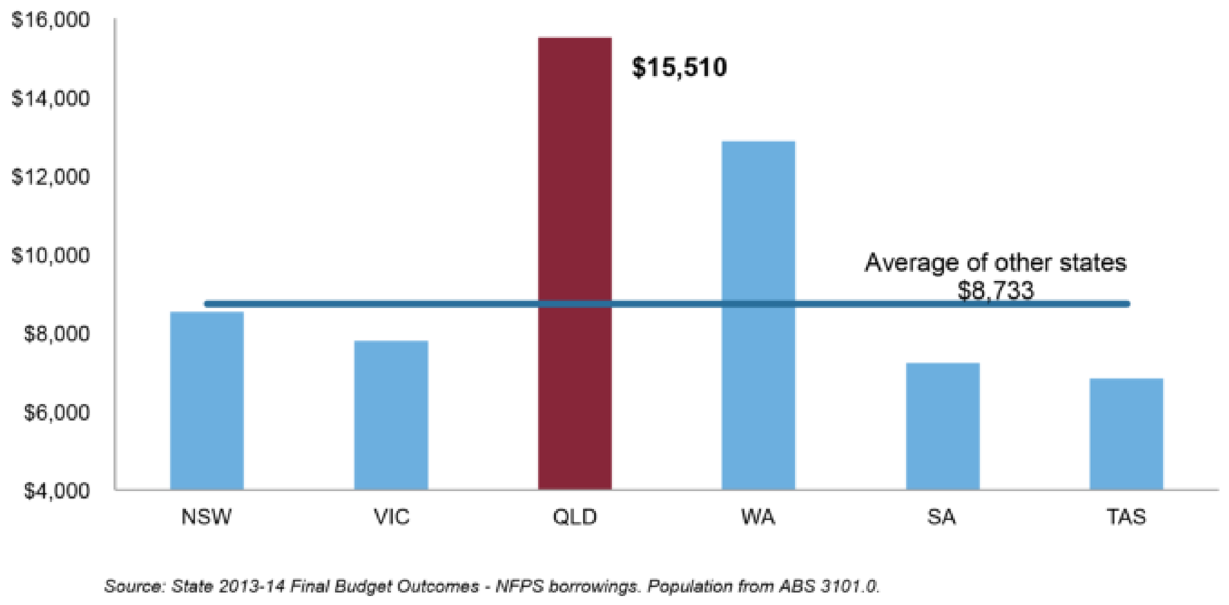
Since coming to office in 2012, the Queensland Government has taken significant steps to repair the state's fiscal position and put expenditure on a sustainable footing.

In the December Budget Update, Queensland Treasury still forecast the state to return surplus in 2015-16, albeit at $331 million rather than the $862 million forecast in the June Budget. The Government's revenues have been hit hard by falls in commodity prices, particularly coal prices.

It is clear that Queenslanders will need to explore how the Queensland Budget can be put on firmer foundations. Ai Group believes the Government elected in 2015 should continue to pay down debt so the state can continue to remain an attractive investment destination. In the June Budget, Queensland Treasury noted that in Queensland, the level of state's debt is around $15,000 per person. This is almost 80% higher than the average of the other states of $8,335 per person (at 30 June 2013).

While it is important to chart a path to improve the state's fiscal position, a balance should be struck between paying down debt and investing in the vital infrastructure the state needs to be competitive. Industry needs to be able to compete in world in markets, and this will require investments in road, rail and ports in the future across Australia. The state also needs a skilled workforce.

Chart 7 – Interstate Comparison of Debt to Revenue Ratio 2009-10, 2017-18



Source: Queensland Mid-Year Review, December 2014

Recommendations:

- **The newly-elected Government should remain committed to paying down debt and improving the State's fiscal position. But this should be balanced against the need for investments in infrastructure and skills.**

Reduce the cost of doing business

State Governments across the country are responsible for a sizeable portion of the government costs levied on business, through taxation and regulation. Industry understands the Government needs revenue streams to provide important public services, but it is important that only necessary regulation and the most efficient taxes are imposed. The Federal Government's upcoming white papers on taxation and federalism will be a good opportunity to investigate reducing, remodeling or replacing inefficient state-based charges, including payroll tax and stamp duty.

The next Queensland Government should also reduce unnecessary red tape, to make it easier for businesses to establish and grow and employ in Queensland. Where possible, different regulatory regimes in different states should be replaced with nationally-consistent laws to reduce compliance costs for businesses.

Consequently, we call on the newly-elected Queensland Government to take an open-minded view to examining state-based taxes including conveyancing duties, insurance taxes, land and payroll taxes, and should also embrace regulatory harmonization across states to remove burdens from business. Many of the reforms to state-based taxes identified in the Henry Tax Review are worthwhile but will require broader reforms to fiscal federalism and revenue sharing allocations between the states through the Commonwealth Grants Commission.

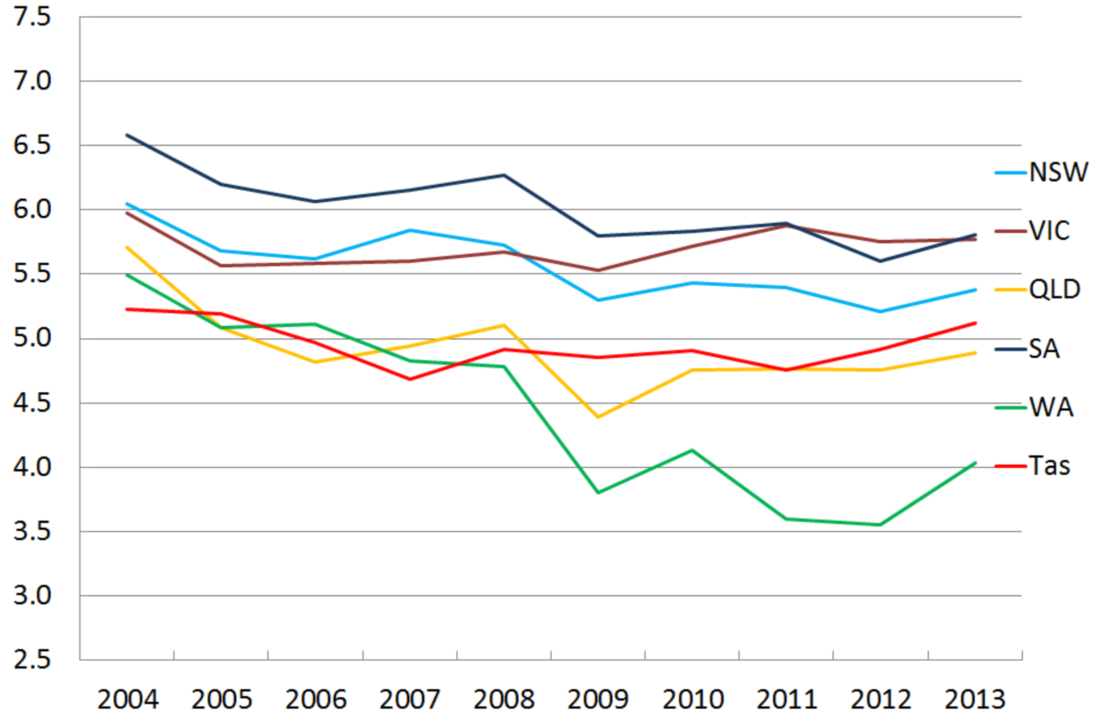
Recommendation:

- **The newly-elected Government should fully commit to the Tax White Paper and Federalism Whitepaper process and examine if inefficient state-based taxes and charges on industry can be removed.**

State-based taxes

Queensland has the second-lowest tax burden among the states when it comes to state and local taxes including payroll tax, land tax, land transfer duty, insurance duty and motor vehicle duty (Chart 8). Only Western Australia has a lower burden. This is an important aspect of the Queensland's competitiveness and indeed the state has the highest payroll tax threshold of $1,000,000 and one of the lowest rates at 4.75%. Ai Group would encourage the next Queensland Government to ensure this position is maintained and state-based taxes do not increase as a share of GSP. It is important that Queensland maintains its competitiveness position relative to the other states, to retain and attract businesses and to generate jobs growth.

Chart 8 State and Local Government Taxes as a share of GSP



Sources: ABS, 5220.0 Australian National Accounts: State Accounts, June 2014; ABS, 5212.12 Government Finance Statistics, 2011-12

Recommendation:

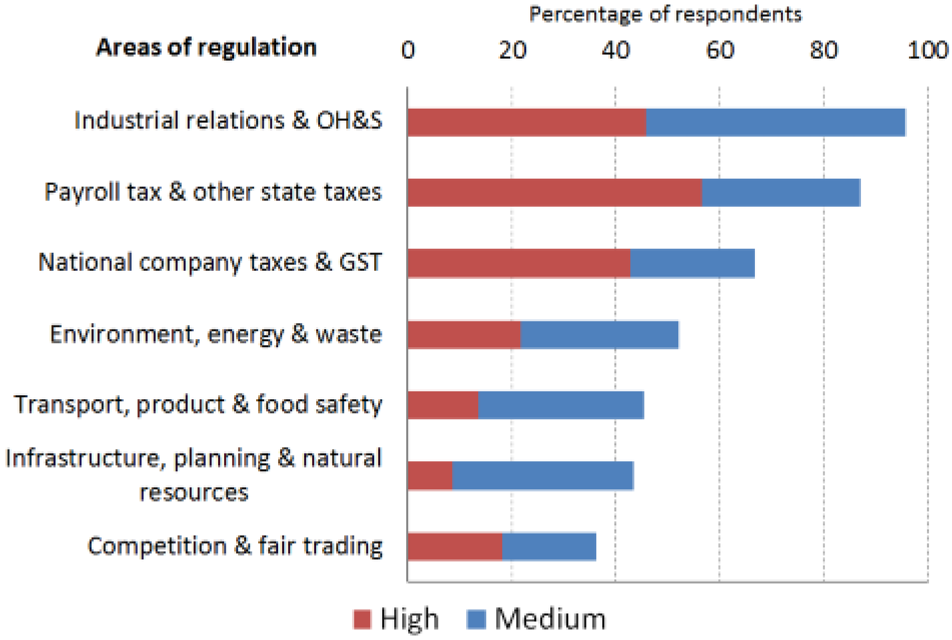
- **The next Queensland Government should not raise taxes and charges to maintain its state's cost competitiveness.**

Red tape and regulatory reform

The current government's focus on red and green tape reduction across government has been particularly pleasing – with significant progress noted around workers' compensation, environmental licensing, major project approvals and in other areas. However, despite this there is much work still to be done and reducing the regulatory burden on business should remain a key priority for an incoming government.

Despite recent progress, a recent survey of regulation conducted by Ai Group found that Queensland businesses still have the highest degree of reported regulatory burden from industrial relations and OH&S among all states.

Chart 5: Queensland's regulatory burden



Source: Ai Group

Almost all CEOs surveyed (96%) estimated these areas impose a medium to high cost on their business in 2014. Payroll and other state taxes were also highlighted by 87% of Queensland businesses as a major cost concern for 2014. In particular, 57% of CEOs in Queensland estimate the relevant costs of compliance to be high in 2014.

Regulations around environment, energy and waste are expected to affect over half (52% citing it as a medium to high cost) of businesses in Queensland. Fewer Queensland CEOs face costs due to safety standards (45% citing it as a medium to high cost), infrastructure and planning (43%) and competition and fair trading (36%).

To date much of government's focus has been around the "four pillars" of agriculture, tourism resources and construction. Whilst these are clearly key areas of the Queensland economy Ai Group would welcome an expanded focus including on manufacturing – the fourth largest contributor to Gross State Product. In fact, Queensland has the third largest manufacturing sector in the country, behind only NSW and Victoria, and is more than double the size of South Australia's manufacturing industry.

Queensland manufacturers - like those in other States - are under great competitive strain. The most complete measure of economic activity, the annual Gross State Product measure shows manufacturing in Queensland posted a small decline over the year to June 2014 of -0.1% in inflation-adjusted terms. The labour force data shows a relatively large fall in employment in Queensland manufacturing in the three months November. Around 13,000 jobs were shed in the quarter, and 38,000 jobs lost over the past year.

Despite this there are enormous opportunities for the sector. In this regard, rather than seeing manufacturing as the "ugly duckling", as a state we should be focused on the enormous opportunity to transition what is a vibrant sector to deliver its full potential. This has been achieved by many highly successful cutting edge Queensland manufacturers individually, but at a sector wide level there is much work to be done - and governments at all levels need to be onboard.

Governments at all levels have a role to play in driving manufacturing productivity and competitiveness with the right policy settings. In Queensland that includes red tape reduction, ongoing investment in industry led skilling, and a strong forward pipeline of infrastructure investment. Early adoption of emerging technologies will also be critical as will increased collaboration between business and universities.

In Ai Group's recent survey one in 10 manufacturers nominated 'government regulatory burden' as one of their top three inhibitors to growth. With 85% of manufacturers identifying industrial relations, employment, workcover, and OH&S as most likely to impose medium or high costs on the business in 2014, with 43% of CEOs expecting associated costs to be high.

Regulations around environment, energy and waste were a medium to high cost for over half (55%) of manufacturers in 2014. Ai Group welcomes the recent announcement (in the COAG Communique of 13 December 2013) by the Council of Australian Governments of a major focus on reducing red and green tape.

And specifically that:

The governments all agreed to work in their own jurisdictions to improve regulation and remove unnecessary red tape:

They also agreed to work bilaterally to implement 'one-stop-shops' for environmental approvals in their states and territories; and

That COAG will work together on reducing red tape in the four areas of manufacturing, higher education, early childhood and 'end-to-end' regulation of small businesses, with each state to target specific small business sectors.

Many Queensland businesses have operations in multiple states and face a number of inconsistent reporting regimes. Queensland should continue to lead efforts to reduce the burden of inconsistent reporting, particularly by advocating for, and facilitating, a single national online reporting portal.

The benefits for businesses, and indeed the broader economy, from nationally-consistent business regulation and competition laws have been well canvassed in recent years. In 2008, state and federal governments signed the National Partnership Agreement to Deliver a Seamless National Economy at the Council of Commonwealth Governments meeting. Thirty-six separate reforms are covered by this National Partnership, comprising of 27 deregulation priorities, eight areas of competition reform and a reform to regulation making and review processes. Only 17 of the deregulation priorities and three of the competition reforms were completed. It is clear from the December 2013 COAG meetings that federal and state governments have taken a new approach to harmonization especially on areas like occupational licensing, which was not completed. Ai Group still sees significant benefit to industry, and indeed the broader economy including households and governments, from harmonised legislation and regulation.

Recommendations:

- **The COAG agenda has changed with changes in governments across the country. Queensland businesses, and indeed businesses nationally, would benefit from many of the harmonisation reforms that were not completed. We would encourage the next Queensland Government to reinvigorate this process.**

There are a number of actions governments can take to further address business regulatory compliance costs:

- **Reduce the frequency of business regulatory reporting requirements to a minimum and establish reliable electronic and web-based regulatory reporting for businesses.**
- **Minimise the required number of approvals needed for projects and execute approval processes concurrently.**
- **Integrate and rationalise approvals for all projects by creating an approvals committee with the authority to issue all relevant approvals.**
- **Work with local government to reduce duplication of regulation across local government boundaries (planning regulations for example) and across state borders (for example the payroll tax harmonisation process through COAG is not yet operational).**
- **The Queensland Government also needs to consider how regulatory agencies interact with the business community with respect to regulatory changes and proposals. Consultation is crucial and should continue but governments need to invest in more efficient and less onerous consultation processes which do not impose an additional burden on businesses.**

Workers' Compensation

The amendments to the *Qld Workers' Compensation & Rehabilitation Act 2003* that came into effect in late 2013 were welcomed by Ai Group members and provided much needed relief to industry across the state. It is critical that these are not wound back in any way by an incoming government. Indeed the new common law damages claim threshold as introduced with the amendments is considered modest by comparison to other jurisdictions and Queensland employers continue to be concerned about the untouchable status of secondary psychological injury claims.

The new section 571A, B, C & D amendments have however provided Queensland employers with the opportunity to employ and manage new employees with reference to best work health and safety practice and appropriate information about pre-existing health issues. Employers can now realistically manage, avoid and/or minimise the risk of work related *aggravation* injury claims. This is a very important development for many industries where *aggravation* injury claims have been a constant and serious work health and safety management challenge because of an aging workforce.

Ai Group notes that while Queensland employers are actively encouraged not to discriminate against older workers and to keep them employed and supported, there is no premium relief for employers in relation to *aggravation* injury claims made by older workers with pre-existing health issues although many workers now intend to work until 70 years of age or older.

The launch by WorkCover Queensland and the Office of Fair and Safe Work Queensland of a new one-stop shop website and call centre for all work safety and workers compensation services and information in early November 2014 was also welcome by way of reducing *red tape* for Qld employers and making services "*simpler, clearer and faster to use*".

It is a boon to no longer have to supply the same workplace incident information to WorkCover and to Workplace Health and Safety Queensland separately.

Ai Group also acknowledges WorkCover Queensland's proactive engagement with employers during 2014 with the view to obtaining their feedback on possible changes to the current WorkCover premium model.

While it is understood that Queensland currently has the lowest premiums in Australia issues with regard to how premium is calculated are not off the agenda for Queensland employers. It is fully understood that no premium model is ever going to make all employers happy, especially where the premium scheme is in effect a closed system and every time one employer gains a benefit another likely loses. Ai Group nevertheless anticipates that WorkCover Queensland will continue to constructively take on board feedback from employers with regard to the present EBR premium model.

Further in this regard Ai Group notes that the Queensland scheme is the only government underwritten scheme that does not use "*estimate of future costs*" in the premium calculation because of the 5 year wind up of benefits as distinct from other state schemes that pay benefits through to retirement age.

Ai Group is also aware that other state schemes have moved away from the "F" factors that are used to adjust costs and use a model which measures performance based on comparison with the rest of that industry. Accordingly it is of concern that Queensland employers who are doing everything right in their workplaces often consider that as a consequence of the conduct of others in their industry sector they appear worse than they actually are.

Ai Group members have accordingly suggested that rates could also be set to reward employers who have:

- a good track record with workplace health and safety compliance;
- accredited workplace health and safety systems including return to work programs;
- and improvements to published key performance indicators.

Ai Group members in Queensland are also concerned about the economic uncertainty experienced by them in anticipation of the delayed financial impact of a common law damages claim on premium especially since the GFC and in what are quite tough financial times for many businesses. Employer excess options with reference to other state workers' compensation schemes have also been raised.

In recent discussions in the context of the WorkCover Queensland premium model review some Ai Group members have also indicated that they have an interest in the *retro paid loss* schemes that operate in NSW and SA because they consider that employers in this context are highly incentivised to return employees to work and close out claims as soon as possible to obtain lower premiums associated with improved performance.

The proposed *Comcare national self-insurance* scheme has also attracted some interest but because the Bill has not been passed it is still somewhat limited. Ai Group is keeping a watching brief in this regard and is providing its members with regular updates on the proposal including by way of matters that will need to be considered by multi-state employers before moving into such a national scheme.

Recommendations:

That the newly elected Government:

- **Maintain the amendments to the QLD WorkCover legislation as introduced in late 2013 including the common damages claim threshold;**
- **Continue with the constructive steps taken to reduce the reporting burden in this sector;**
- **Continue to review the QLD WorkCover premium model and related options; and**
- **Offer greater support to QLD employers including by way premium relief in relation to *aggravation injury* claims.**

Public holidays

Queenslanders currently have 10 public holidays every calendar year, which is generally in line with other states. Ai Group would strongly encourage no further public holidays are introduced given the cost to the state through lost production and increased cost to business. While business understands the motivation for the recent G20 public holiday in areas directly affected by the G20 activities, its application to the broader Brisbane Local Government Area resulted in significant costs to business particularly for the many businesses located well-outside the inner-city based zone of activity. It is critical future government's take these impacts into consideration when undertaking planning for major events into the future.

Further, governments should minimise disruption and additional costs to business when public holidays are not nationally synchronised. Many Queensland businesses have operations in multiple states and face an array of challenges and costs dealing with differing public holiday regimes. For this reason reinstating Labour Day in Queensland during May will impose unnecessary disruption and additional costs to business and is not supported.

Recommendations:

- **That the newly elected Government considers the cost to business and erosion of competitiveness that additional public holidays would bring.**
- **That the Queensland Labour Day Public Holiday be retained in October to ensure ongoing consistency with Victoria, NSW and the ACT.**

Daylight saving

Ai Group supports a reconsideration of Queensland's approach to daylight saving. Previous Ai Group member surveys have found that over 70 per cent of businesses in South-East Queensland (SEQ) support the introduction of daylight saving in Queensland. The same survey found businesses across Queensland, about 60 per cent supported daylight savings.

Daylight saving has imposed confusion, inconvenience and additional costs on Queensland business over a long period, particularly businesses operating in South-East Queensland. Many Queensland businesses have operations in multiple states and face an array of challenges and significant additional cost dealing with differing time regimes.

Recommendation:

- **That the newly elected Government considers the cost to business and erosion of competitiveness brought about by inconsistent time zones across Eastern Australia and moves towards a system that will bring Queensland in line with other states.**

Equipping Queensland with vital infrastructure

The case for investment in public infrastructure is strong in Queensland. The state needs investment in roads, rail and ports, which would decrease congestion, lower costs and enhance the competitiveness of Queensland businesses seeking to access international markets.

Another compelling reason for investing in new infrastructure in Queensland is the slowdown in mining-related engineering construction as resource companies finish existing projects. Providing a pipeline of projects for the Queensland construction industry, which is the second largest industry in the state, would provide a certainty of work to the construction industry over the coming years as mining activity eases.

Given the Queensland Government’s fiscal position relative to other states, the funding options for new infrastructure are limited. Queensland is also a state with a high rate of public ownership of key infrastructure in contrast to other states. Locking taxpayer money in existing assets while ever new infrastructure is needed is not the best use of a state’s balance sheet. While this has been a politically contentious issue for recent governments, Ai Group believes the case is strong for privatisation and that a sensible conversation needs to take place with Queenslanders with a view to the state’s long-term prosperity.

Further motivation for privatising assets is the Abbott Government has also outlined a new **Asset Recycling Fund**, which would be used to top up any funds raised by states privatising public assets. The Federal Government will contribute an additional 15% of the funds raised by a state government through privatising an asset. Queensland is especially well placed to benefit from this initiative given the extent of public ownership of assets here.

Furthermore, Queenslanders paying too much for electricity could benefit, with networks the biggest driver. Privatisation should improve the performance of the networks, as well as freeing up capital for reinvestment. Additional options to reduce network costs should also be examined. These are discussed in the next chapter on energy.

Despite the above governments should investigate asset sales/leases on a case by case basis, and only undertake those that will deliver increased competition or improved efficiency in asset management. Queensland businesses will have an open mind when considering any proposals to sell publically-owned assets and for assets that can be operated more efficiently by the private sector, this evaluation will come down to:

- whether the taxpayer gets a good price in the sale process;
- whether appropriate safeguards for consumers and businesses in the regulatory arrangements will apply to the sold assets; and
- whether the funds will be used wisely – either in repaying debt or investing in new infrastructure.

It is these rather than any ideological considerations that will inform Ai Group’s assessment of proposals to sell individual assets.

Should privatisation proceed, any funds generated from the sale or lease of assets should be used either to pay down debt, or to invest in new high quality productivity lifting infrastructure projects that meet rigorous cost-benefit analysis and that will benefit the Queensland economy beyond the initial construction phase. As outlined above, maintenance of a medium and long-term infrastructure project pipeline will not only boost the State's overall productivity but will also provide certainty and opportunity for local business as the mining investment boom continues to fade.

Alternative ways to finance debt reduction including significantly decreasing existing government services or increasing payroll and other State taxes or levies, are not supported by Ai Group. These alternatives would have significant and counterproductive impacts on business competitiveness and the broader Queensland economy and community.

Regarding any non-infrastructure programs intended to be funded through asset sales revenue, these should be well designed and strategically targeted to ensure a long term productivity dividend. Further, care should be taken in their design to ensure they complement rather than duplicate any existing Federal Government initiatives.

Infrastructure project selection

Ai Group believes that transparency is vital for infrastructure projects. Each proposed project must be subject to thorough and transparent cost-benefit analysis to ensure the Government gets the best possible use of taxpayer funds. A clear and transparent process will also help to foster public support for infrastructure projects and avoid costly delays in construction.

Ai Group believes Queensland would benefit from an independent planning body like Infrastructure Australia to undertake rigorous cost benefit analysis before projects are selected. This would further improve the integrity and transparency around infrastructure planning and prioritization. Not only does this build public support for major projects, it also ensures governments can access private finance to invest in infrastructure. Having a transparent and rigorous project creates confidence among investors ensuring that least-cost financing and a deep pool of investment funds exists for future projects.

In considering future infrastructure investment in Queensland we would also urge government to consider:

- smoothing investment cycles as a means of reducing project costs;
- undertaking further research into non-government infrastructure funding models including:
    - utilizing non-funding levers available, including continuing to fast track development approvals and reduce the regulatory and cost burden on industry by improving government tender processes; and
    - developing programs of projects that can be rolled out at short notice to fill anticipated declines in order books as resource projects decline.

Recommendations:

- **Progress the privatisation of assets in instances when all of the following tests can be met:**
  - **the sale/lease will deliver increased competition or improved efficiency in asset management;**
  - **the taxpayer gets a good price in the sale process;**
  - **there are appropriate safeguards for consumers and businesses in the regulatory arrangements will apply to the sold assets; and**
  - **funds will be used wisely – either in repaying debt or investing in new productivity lifting infrastructure.**
- **Maintenance a medium and long term infrastructure project pipeline to boost the State's overall productivity and to provide certainty and opportunity for local business as the mining investment boom continues to fade.**
- **Establish an independent planning body similar to Infrastructure Australia to undertake thorough cost benefit analysis of infrastructure projects to further improve the transparency and rigor around infrastructure planning and prioritization.**

Energy Policy

Queensland energy users have endured severe price increases in recent years, and more are to come. The incoming Government should take strong action to moderate pressure on prices, and to support more efficient use of energy. There are several important aspects to this.

Electricity networks

Electricity prices have increased substantially over the past five years, and the single biggest driver of higher prices has been the rise in electricity network charges. There are many reasons for this increase:

- new reliability standards that required an excessive amount of systemic redundancy;
- investment to meet past growth in absolute and peak demand, particularly driven by the rise of air conditioning;
- investment to meet expected future growth (though in the end demand has fallen);
- a flawed regulatory system; and
- distorted incentives from public ownership.

Ai Group has highlighted these issues for some time, and much has already been done in response. The rules applied by the Australian Energy Regulator have been amended, and based on the recent draft determinations issued with respect to New South Wales networks, these rules are likely to lower costs for consumers. New national reliability standards are under development, focussing network redundancy on areas of greatest risk and consequence rather than blanket duplication. Energy efficiency policies have contributed to the reduction in demand. The next Government should maintain strong support for all these initiatives.

The next frontier in cost control is to remedy the distortions of state ownership of the networks. There are two ways in which the current ownership structure increases costs to consumers:

- High operating costs. While the networks have been corporatised, the experience of other states, particularly Victoria, strongly suggests that private ownership will drive much higher levels of operational efficiency;
- Excessive capital investment. Network businesses are regulated as if they pay a commercial cost for their capital. However, state-owned networks are financed via the Treasury, which enjoys much lower rates. While the state levies a ‘competitive neutrality charge’ on this finance, the real return to the State from capital investment by the networks is significantly higher than the regulator has been obliged to assume. That creates a strong incentive for over-investment.

There are several things the next Queensland Government can do to reduce these costs and distortions. The most obvious is to fully or partially privatise the networks. Privatisation has obvious benefits in terms of freeing up capital for reinvestment in other infrastructure needs, addressed elsewhere in this submission. Privatised networks are also likely to operate more efficiently. The imperative to reduce consumer energy costs from their recent heights has led to new regulatory rules and a new approach by the AER; based on the draft determinations for NSW, it is likely that Queensland networks will be required to make do with significantly less revenue than they request. Privatised businesses will be more able to adjust to these pressures. Privatisation can also help end the distortion of network investment incentives that results from State ownership. There is strong evidence, based on the experience of Victoria's privatised networks, that private ownership can provide strong service without increases in cost. Indeed, Victorian energy users have enjoyed significantly lower network costs over the past five years than Queenslanders, though several additional factors contributed to this – including more efficient reliability standards.

There are two additional steps beyond privatisation that the next Government could consider. One is to consider a downwards revaluation of the regulated asset base of the networks. This could be done with or without a privatisation, and would benefit energy users either way, but if privatisation were to proceed the revaluation would need to take place first with plenty of warning. The case for a revaluation rests on the radical turnaround in electricity demand in recent years, which has meant that a significant amount of the new network capacity constructed over the same period is not needed for the foreseeable future. Rather than saddling energy users with costs for the next several decades that are attributable to forecast error and regulatory failure, the next Government could consider reducing the value of the network to reflect the proportion of assets that are surplus to need. This would reduce state revenue, whether through dividends or privatisation proceeds, but would take considerable pressure off energy prices, and the overall economic benefits of the latter are likely to outweigh the costs.

A third step, which would be most relevant if privatisation did not proceed, would be to reassess the case for the competitive neutrality payments levied by the State from the networks for the finance they are provided. Networks do not compete with one another: they are regional monopolies. It is unclear what distortion the current arrangements are meant to prevent, and it is apparent that they inadvertently create a distortion themselves by increasing the real returns to the State from capital investment by the networks. The next Government should investigate whether to remove the competitive neutrality payments for networks entirely – in consultation with the Australian Energy Regulator to ensure their regulatory determinations reflect the change – or alternately, to agree a 'revenue swap' with the Commonwealth to separate the ownership of the networks from the collection of this revenue stream and the associated incentive effects.

Gas

Gas price and supply in Eastern Australia is changing radically as a result of the new Liquefied Natural Gas export industry taking shape in Queensland. This industry offers tremendous rewards in terms of construction and trade, with benefits for public finances and other sectors. But it is accompanied by potentially severe side effects: gas prices that are rising steeply and linked to volatile global oil markets, and domestic supply that is extremely tight for at least a transitional period. This transformation is the biggest issue in Australian energy today, and while Queensland enjoys the most direct benefits of the rise of LNG, it is also likely to see the most serious hangover. Modelling from Deloitte Access Economics, commissioned by Ai Group and a consortium of other industry associations, found that under Commonwealth forecasts for gas price growth, Australian manufacturing output would shrink by a cumulative $118 billion to 2021, of which $59 billion would be lost in Queensland. Mining output would shrink by $34 billion, of which $22 billion would be lost in Queensland.

Minimising the side effects while capturing the benefits of LNG requires action by both the States and the Commonwealth. Increasing gas production safely and with community support is essential, though not sufficient. Thanks to successive governments Queensland is leading the way here, with NSW and Victoria lagging badly; the next Government needs to continue to facilitate gas resource development while maintaining and increasing community confidence.

However, to get the greatest benefit from gas production it is critical that this gas flows into a more competitive and transparent market. A broad reform agenda has been considered in the Commonwealth's recent Energy Green Paper, including an ACCC Price Inquiry, publication of better and more regular gas market information, development of pipeline capacity trading, and more. The next Queensland Government should support and add urgency to this agenda. It should also encourage and ensure that gas market impacts, particularly on supply, are fully considered before any future expansions of LNG export capacity take place. The need for such consideration is demonstrated by the current supply problems in the market, which result in large part from the failure of supply growth to match the demand from three massive export projects constructed simultaneously.

Efficiency

Even with the policies we recommend, it is certain that gas prices will rise and that electricity prices will be well above historic levels. Further price pressures are likely in the medium and longer term as new or replacement generation capacity is required. In this light it is clear that encouraging energy efficiency, most urgently in gas, is a strategic priority for government. Efficiency will help ease near term supply concerns, and can limit the extent to which high energy prices turn into high energy bills and reduced competitiveness. The next Government should consult, particularly with industry, on cost effective options to expand its energy efficiency activities. This should include working with Ai Group to provide onsite advice and assistance to help companies identify opportunities to reduce costs and improve productivity. Ai Group's Environment and Energy team have conducted over 190 energy and resource efficiency assessments across a wide range of manufacturing facilities and almost all were found to have opportunities to improve their energy performance by at least 12-15 percent. Impressive savings are also being identifies and made by companies investing in material efficiency.

Recommendations

- **Fully or partially privatise electricity networks to improve efficiency of operation and to free up capital for reinvestment in other infrastructure needs.**
- **Consider a downwards revaluation of the regulated asset base of the networks to reflect the proportion of assets that are surplus to need. This could be done with or without a privatization. This would reduce state revenue, but would take considerable pressure off energy prices, with the overall economic benefits likely to outweigh the costs.**

- **If privatization does not proceed, the incoming Government should investigate whether to remove the competitive neutrality payments for networks entirely – in consultation with the Australian Energy Regulator to ensure their regulatory determinations reflect the change – or alternately, to agree a 'revenue swap' with the Commonwealth to separate the ownership of the networks from the collection of this revenue stream and the associated incentive effects.**
- **Continue to facilitate gas resource development while maintaining and increasing community confidence.**
- **An incoming Government should consult, particularly with industry, on cost effective options to expand its energy efficiency activities. This should include working with industry associations such as Ai Group, to provide onsite advice and assistance to help companies identify opportunities to reduce costs and improve productivity.**
-

Ensuring Queensland industry operates on a level playing field

Ai Group believes Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. As it stands there are a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers. These barriers and distortions are exacerbating the intense competitive pressures currently being experienced by local, trade-exposed industries and particularly by the manufacturing and IT sectors.

The major barriers and distortions are:

- An undue emphasis on upfront costs rather than whole of life costs in public sector procurement. This emphasis results in the purchase of lower quality goods and services and neglects the costs involved in maintenance and through-life support which are key advantages that local suppliers are able to offer.
- An uneven weighting given to conformity with standards. Local producers are required to produce to stringent Australian and International Standards and non-conformity or false claims of conformity are much more rigorously enforced than is the case with many imported alternatives. This puts local businesses at a disadvantage.
- Selection criteria (implicit or explicit) that include a record of supply in other countries as demonstration of credentials. This favours offshore suppliers and is a particular barrier to emerging local businesses and domestic suppliers of innovative goods and services.
- Preference given to offshore suppliers. Preference is often given by overseas-based prime contractors to sub-contractors and suppliers in their country of origin under explicit or implicit local preference arrangements and practices.

These barriers and distortions against local industry participation in government contracts and in major projects can be addressed by the adoption and adherence by government agencies of practices that adhere to purchasing principles set out below. For major infrastructure, construction and mining projects, governments should require prime contractors and holders of licences to adopt and demonstrate adherence to similar practices. These practices should work alongside programs aimed to facilitate local industry participation such as a strengthened Industry Capability Network.

It is also important to account for the wider value to the economy by purchasing locally, such as through skills development and retention and through creating jobs. Governments procuring locally also ensure a broad range of suppliers can continue to operate locally. Finally, governments should be aware that many foreign governments impose contractual requirements for local content in their purchase of local goods.

Recommendation:

- **Ai Group recommends that all government agencies including Queensland agencies and major contractors implement an approach that shows a commitment to Ai Group's five procurement principles:**

Value for Money: Value for money looks beyond "least cost" and brings cost-benefit approach that considers quality, after sales servicing and maintenance, ongoing supplier relationships and speed of maintenance repair.

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.

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

Full Opportunities for Local Suppliers: Australian based 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, prime contractors and licence holders should ensure that local suppliers have full and fair access to sub-contracting and supply arrangements.

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.

Industrial land availability and urban encroachment

The planning and management of industrial land is a key infrastructure issue that needs to be addressed, as part of an overall strategy to support population and economic growth in south east and regional Queensland. A lack of certainty in land release and appropriate infrastructure delivery is potentially a significant constraint to business growth, construction activity and employment generation in Qld in coming years.

It is therefore critical that an incoming government continue to invest in vital infrastructure as well as opening up new areas for development. High quality economic infrastructure combined with efficient planning processes are key enablers for industry growth and the attraction of business investment to Qld.

Investment by the private sector requires a high degree of certainty. It is important that in future planning of new industrial areas, industry is given the certainty necessary to support investment decisions. This will require a clear and consistent application of land use and development policies, with regular information flowing to industry on the status of planning policies and strategies.

A whole of Government approach is required, taking into account the delivery of new transport infrastructure; the use and release of land and; decisions regarding the provision of supporting infrastructure.

Planning policy also needs to ensure that there is an appropriate balance between industrial and residential interests. It needs to be sufficiently flexible to provide protection and predictability for existing land users that require planning protection. This is becoming increasingly important, particularly where new residential developments in the vicinity of established industry can pose a threat to the continued viability of industry.

Recommendation

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

Fostering innovation by Queensland industry

Innovation will provide the foundation for improvements in Queensland's competitiveness and living standards. It will be essential to lift productivity and central to Queensland's ability to fuel new sources of growth to rebalance the economy as the mining investment boom wanes. We encourage the new government to take an active role in improving the innovation environment in the state through considered policy settings and incentives. Innovation should be treated by an incoming government as being fundamental to every aspect of industry growth and development, and not just a niche area of industry policy.

It is especially important that innovation policies aim to lift productivity and competitiveness across a diverse cross-section of industries, giving existing industries and sectors the scope to grow and new industries the scope to emerge. The manufacturing sector, in particular, has demonstrated remarkable resilience in Queensland and will be important to the State's rebalancing effort.

An incoming government should play a critical role in creating an environment that supports innovation to occur by:

- ensuring that state research priorities are clearly articulated and that there is a strategic long-term view to pursuing and implementing these priorities;
- investing to further strengthen Queensland's education and training systems and ensure that training is well-targeted to meet the needs of Queensland businesses;
- providing support for institutions and organisations that generate and disseminate knowledge;
- facilitating networking opportunities;
- providing a stable, workable and predictable policy environment that incentivises investment in innovation and encourages intellectual property (IP) and its flow on benefits to stay and create jobs and wealth in the State; and
- acting as a purchaser of innovative systems.

Collaboration on innovation

We applaud the recent strong focus in Queensland on building links between researchers and business. These links will ensure that Queensland is leveraging its strengths in research, growing successful businesses and supporting productivity and export growth to secure its future. We would encourage ongoing support for programs such as the Accelerating Partnerships and Accelerating Ideas programs, and events such as the Collaborate to Innovate event. Opportunities to promote greater cooperation between researchers and industry must be open and accessible to businesses from all sectors and sizes, and should not be denied to collaboration between Australian and overseas-based businesses and research organisations. It is important that the collaboration has a clearly defined purpose and that emphasis is placed on the generation of commercial outcomes. That said, in our experience the vast majority of collaborative arrangements between industry and public research organisations, no matter how small, will if successful result in ongoing collaboration invariably leading to collaboration on innovation. For this reason we support any initiatives to build connections between researchers and industry and embed a culture of sharing knowledge, ideas and resources between these two groups.

Innovation to support business transformation

Innovation will be particularly critical for those businesses struggling from the multiple challenges of high costs, increasing import competition and the decline in investment in the mining sector. Support to these businesses should aim to build longer-term resilience by assisting businesses to identify and capture opportunities in areas or niches of distinct competitive or innovative advantage.

Ai Group recommends the next Queensland Government ensure they have an innovation policy that is aimed at:

- helping businesses identify opportunities to develop new or refined goods and services; new or significantly improved ways of producing, distributing and marketing goods and services; and new approaches to doing business.
- boosting the innovation or skills links between sectors, suppliers and businesses and public sector education and research institutions;
- assisting businesses to develop new capabilities and introduce ways to stimulate and develop existing capabilities that will better position them to capture innovative opportunities;
- facilitating the transition of affected businesses to alternative markets; and
- helping Queensland business to capture opportunities presented by the rapid growth in incomes in emerging economies in the Asian region.

The next Queensland Government should also encourage and facilitate business participation in successful programs like the Federal Governments' Entrepreneurs Infrastructure Program Business Adviser Program to help businesses capture new opportunities and transition into new roles. These programs only work when they are operate cohesively between levels of government.

Queensland's *Centres of Excellence* can also help to ensure that Queensland businesses have the ability to change, adapt and compete against the best in the world and become the best in the world in areas or niches in which the State has an advantage. It is important that activities of the Queensland Centres of Excellence complement and build on activities of the Federal Government's Industry Growth Centres. The Queensland Centres of Excellence may be used to provide a uniquely Queensland perspective to the activities of the Industry Growth Centres.

Skills for innovation

Higher skill levels and genuine interaction across a range of disciplines and specialisations (within and between businesses, and between industry and researchers) will be important to boost the creation and commercialisation of new innovations. This includes technical skills, or skills in science, technology, engineering and mathematics – the so-called STEM skills and non-technical skills. The latter includes, among other things, skills in leadership, management and entrepreneurial skills, and the ability to be adaptable, network, communicate and negotiate.

There must be an ongoing focus on boosting the technical and non-technical skills of Queensland's workforce. A multi-faceted strategy will be needed to achieve this, including initiatives to up-skill the existing workforce, attract skilled professionals to the sector and ensure the retention of existing skilled professionals. The relationship between businesses and education and training institutions will be critical to the success of these initiatives, and engagement by students at all levels of education with industry should be strongly encouraged. These are discussed in greater depth in the next chapter.

Industry in Australia is hindered by two significant barriers, namely high costs and low productivity. Currency movements, the escalation in energy costs and the rise in our relative unit labour costs have reinforced Australia's relative disadvantage as a high cost economy. At the same time our productivity growth has slowed. We now need a strong and concerted effort to lift productivity and competitiveness across the economy.

Recommendation:

- **Ai Group encourages an incoming Government to take an active role in improving the innovation environment in the state through considered policy settings and incentives.**

The digital economy and new technologies

The latest World Economic Forum *Global Information Technology Report* shows that Australia's relative competitiveness in leveraging information and communications (ICT) technologies has deteriorated since 2004, slipping from a peak of 9th in 2004 to only 18th in 2014 – the same ranking as 2013. Although Australia's Networked Readiness Index (NRI), which measures its capability to use ICT to boost competitiveness and wellbeing, actually improved slightly after 2007, a number of other countries experienced greater improvement over this period. As a result, Australia's relative competitiveness with regard to our capability to leverage ICT has deteriorated. Particularly disturbing was Australia's rank of 19th in the Usage sub-index down from a peak of 11th in 2008. This indicator assesses the efforts of individuals, businesses and government to increase their capacity to use ICTs, as well as their actual use of ICTs in their day to day activities.

It is critically important that an incoming government continues the current focus on the digital economy particularly around the delivery of programs focused on facilitating business awareness of the opportunities arising from digital technologies for Queensland businesses in early release broadband areas. This should complement Federal initiatives (for example, Digital Business Kits). The purpose should be to highlight and demonstrate the opportunities and drive greater business commitment to capacity building and early adoption to see a fuller utilisation of emerging technologies.

Recommendation:

- **Continue to deliver programs focused on facilitating business awareness of the opportunities arising from digital technologies for Queensland businesses in early release broadband areas. This should complement Federal initiatives (eg. Digital Business Kits). The purpose should be to highlight and demonstrate the opportunities and drive greater business commitment to capacity building and early adoption to see a fuller utilisation of emerging technologies.**

Education and Training Reform

Industry Leadership

One of the great strengths and internationally admired aspects of the Australian training system is the role of industry. The training system exists to meet the needs of industry and the broader economy by assisting individuals to acquire skills in this context. The importance of the role of industry must not be eroded; rather it must be strengthened to allow Queensland and Australia to optimise the human capital of the working age population.

Industry currently plays a major role in supporting the Queensland Ministerial Industry Commission to identify priority skills areas for the purpose of funding allocation. National Industry Skills Councils (ISCs) take a leading role in the development and maintenance of national training packages but now due a reprioritisation of the outputs of Queensland's Centres of Excellence, they do so largely without any targeted or sustained engagement from the established skills bodies in Queensland. The removal of the capacity of Centres of Excellence to communicate state based priorities to the national training package development framework has weakened one of the key pillars of the training system. The Australian Government is currently undertaking a review of ISCs with the outcomes to be implemented on the first of July 2015. This review process provides a timely process for a review of the roles states can play in ensuring national training packages continue to adequately provide the skilling pathways required at a state level.

Ai Group considers that there are ongoing and serious issues confronting the nation VET system in terms of quality. A high quality VET system must be underpinned by standards and regulation that can assure high quality training and assessment services. Ai Group supports improved regulation of the standards that will lead to consistent and enforceable regulatory approaches within the Australian Skills Quality Authority and by all VET regulators. Ai Group supports the proposed revised VET standards for regulation. Furthermore, we consider that consistently high performing quality providers should be 'rewarded' with a lighter touch regulatory approach, a model that will only work within the context of the revised standards.

Recommendations:

- **Develop and strengthen mechanisms for industry to have a direct voice into policy processes at the senior level**
- **Develop mechanisms to ensure that quality issues and state based skilling priorities are communicated to national training package developers**

VET Sector Investment

In order for the training sector to be sufficiently responsive to industry it needs to be properly resourced. For too long the training sector has been the poor cousin to the higher education and school sectors. For some time the level of funding for the VET sector has been inadequate in its own right and in comparison with the higher education and schooling sectors1. Australian Workforce Futures noted that VET funding per hour fell by 14% between 2066 and 2010 which

[1] Investment in Vocational Education and Training (VET), A Report to the Board of Skills Australia, Peter Noonan et al., May 2010.

contributed to the call for an additional 3% funding per year to 2025 to meet the projected need for enrolment growth. Industry will not be able to meet its need for the amount of qualifications required if the current levels of VET funding continue. This is especially the case given the increasing need for higher levels of qualifications.

Finally, we also ask the Government to recommit to the COAG agreement between the state and federal government to harmonise licensing across jurisdictions.

Recommendations:

- **The Queensland Government provide an additional 3% to the annual VET budget to 2025 to support the attainment of COAG determined targets.**

Apprenticeship Reform

Apprenticeships are the flagship of the Australian training system. Apprenticeships are highly valued by industry as the best way to train skilled tradespeople for the future. The combination of structured training and workplace learning in the context of employment provide apprentices with the theory and practical skills that make qualified tradespeople. However, reform to the Australian Apprenticeship system is required.

Reform that preserves the integrity of the apprenticeship system and is sustainable must be driven by the demand-side, i.e., industry. Chief among reforms is the need to refocus apprenticeships on the core relationship between the apprentice and the employer. Administrative and support mechanisms, requirements of the supply-side must not get in the way of these reforms. Many issues require attention including facilitating genuine user-choice, overcoming national inconsistency, finally implementing competency-based progression, lifting completion rates and improving school pathways to apprenticeships.

Additionally, consideration should be given to establishing genuine national apprenticeship arrangements. Australian apprenticeships are Australian in name only and the lack of a genuine national system is a frustration to employers, especially those that operate on a national basis or in multiple states. Forging national arrangements would see the removal of duplication of service provision, the streamlining of administrative requirements and unnecessary confusion. A National Apprenticeship Commission will be required to undertake this important task.

Recommendation:

- **Support the implementation of a genuine national approach to apprenticeships by collaborating with the Australian government to establish a National Apprenticeship commission or similar entity.**

Workplace Literacy and Numeracy

There remains an urgent need to address the language, literacy and numeracy (LLN) needs of the Australian workforce. Ai Group research tells us that low levels of workplace literacy and numeracy is a major concern to employers. Low levels of LLN have a negative impact on productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. In addition to the well-known results of the Adult Literacy and Life Skills Survey (ALLS) and the more recent program for the international

Assessment of Adult Competencies (PIAAC) study, research undertaken by the Ai Group demonstrates that 93% of surveyed employers reported that low levels of literacy and numeracy were having an impact on their business.[2] Ai Group, and increasingly employers, see a strong connection between improving workplace literacy and numeracy and lifting Australia's productivity performance. Recent cutbacks to the Australian Government's WELL program have left large funding shortfalls in the ability of employers and individuals to access LLN training.

Recommendation:

- **The next Queensland Government should commence discussions with industry and other appropriate stakeholders about the development of further workplace LLN program options.**

School Sector Reform

A world class economy needs the support of a world class education system. All the international indicators reveal that we do not have this. Particular areas of concern are the lack of work-readiness and foundation skills of school leavers, the decline of the STEM skills very much needed for the new economy and considerable employer unease about the quality of VET in Schools arrangements.

Resourcing

To have a high skill economy Australia must have a high performing school system. Ai Group supports the aspiration for Australia to have world-class education system grounded on a needs-based funding model. It is of significant concern that Australia's international schooling ranking has been declining over the past decade and we have now been overtaken by many of the systems in our regions - including Hong Kong, Shanghai, South Korea and Singapore. Such countries are investing heavily in their schooling systems and are seeing the human capital of future generations as fundamental to securing future economic growth. Significantly expanded resourcing and a sustained reform process with multi-jurisdictional commitment with staged and transparent measurement will be the only way to achieve this ambition.

Recommendation:

- **The Government progress the implementation of funding reform to facilitate the achievement of a world-class education system.**

Literacy and Numeracy

There are increasing concerns from industry about the adequacy of the literacy and numeracy levels of young people entering the workforce from school. Despite increased expenditure on school education and increases in the achievement of senior secondary certificates there has been no improvement in average literacy and numeracy levels across age groups. Ai Group is concerned that school students exit school without meeting a set benchmark in literacy or numeracy. There are no national exit standards for literacy and associated with the award of senior secondary

[2] *Getting it Right: Foundation Skills for the Workforce*, Australian Industry Group, October 2013.

certificates. Only South Australia links the achievement of its senior secondary certificate to level three descriptors of the Australian Core Skills Framework.[3]

The 2008 Melbourne Declaration articulated the central educational goals government and schools need to attain, and specified literacy and numeracy as essential foundations for learning. Yet Australia does not feature favourably in relevant international comparisons of data, showing deteriorating reading literacy of 15 year olds over the past decade in the OECD Programme for International Student Assessment (PISA).[4] The Australian Council of Education Research noted that an unacceptable proportion of 15 year olds are at serious risk of not achieving literacy levels sufficient for them to effectively participate in the workforce.

The state of maths and science in schools has deteriorated to a 'dangerous level' according to a review commissioned by the Vice-Chancellor's of Australia's eight research-intensive universities. The number of students undertaking advanced maths at secondary school fell by 27% between 1995 and 2007. The 2011 Trends in International Mathematics and Science Study (TIMSS) indicates that Australia's performance in mathematics and science has stagnated over the past 16 years.[5]

There is an opportunity to address these issues in the context of the announced review of the National Curriculum.

Recommendation:

- **The next Queensland Government should develop and fund major initiatives to lift literacy and numeracy achievement in parallel with the anticipated efforts and activity under the National Foundation Skills Strategy.**

VET in Schools

VET in schools can play a role in helping young people transition to work. However, the role of VET in schools within senior secondary certificates has become fragmented and in many instances quality is being severely compromised. In addition, recent research has cast doubt on the capacity of VET in Schools programs to assist young people to make the transition to employment.[6] Employers need to be confident that all students have completed training with quality skill outcomes, as defined by the accredited course or training package, no matter where or how they are trained, including through VET in Schools arrangements. This is fundamental to an effective and quality functioning training system. The persistence of concerns about a range of VET in Schools issues indicates the need for a review of the arrangements, especially from the transition to employment perspective.

Recommendation:

- **Ai Group supports a review of policy for VET in Schools across all jurisdictions.**

[3] Policy Circular, Literacy and Numeracy, SACE Board of SA, February 2010.
[4] Media Release, 7 December 2010, PISA identifies challenges for Australian education.
[5] Sue Thomson et al., Highlights from TIMSS and PIRLS 2011 from Australia's perspective, ACER, 2012.
[6] Kira Clarke, Entry to vocations: the efficacy of VET in Schools, NCVER research Report, 2012.

Science, Technology, Engineering and Maths (STEM)

There have been numerous reports that the number of students participating in science and mathematics at a Year 12 level (senior secondary certificates) has dropped. Furthermore, despite successive government attempts over the last decade to increase student participation in science, technology, engineering and mathematics (STEM), the proportion of students commencing STEM has flat-lined at around 10% or less.[7] Consequently, despite current young people being high level consumers of technology it appears that they are not increasing their ambitions to be the creators and innovators of tomorrow.

Ai Group is concerned that declining interest in science, technology, engineering and maths courses in senior secondary certificates poses an immense challenge to current skills shortages in engineering professions and trades and to securing Australia's future manufacturing skills base, as these subjects often serve as prerequisites to most trades and university science and engineering courses.

Recommendation:

- **The Government supports major initiatives in the school sector and in teacher education to lift STEM subject participation.**

Lifting the Capability of the Teaching Profession

The role that education plays in underpinning productivity and economic performance is crucial. According to the OECD, a country able to attain literacy scores 1% higher that the international average will achieve levels of labour productivity and GDP per capita that are 2.5% and 1.55% higher respectively than those of other countries.[8]

The former approach of a singular pathway into the teaching profession is no longer sustainable. All professions, including teaching, need to embrace multiple entry points for acceptance into professional practice. This not only reflects the modern workforce and the increasingly mobile labour force, it also recognises the multiple careers an individual will increasingly pursue over the course of their working life.

A weakness in Australian schooling systems has been the low key approach taken to continuous professional development continuous professional development (CPD) for all teachers. As a nation we have embraced the mantra of life-long learning yet we do not systematically embed this notion within some of our key professions. The teaching profession needs and deserves an innovative model for CPD. This model needs to mirror best practice lifelong learning principles.

[7] Australia's skills and workforce development needs, Discussion Paper, Australian Workforce and Productivity Agency, July 2012.
[8] Education Outlook – OECD 2009

Exploring new export markets for Queensland business

Queensland exporters account for 18% of Australia's export in goods and services, with the State's five largest customers all in Asia (in order of China, Japan, Korea, India and Taiwan). Ai Group commends the Queensland Government's efforts in supporting exporters venture into emerging markets through Trade & Investment Queensland, and its trade missions, networking events and planning and initiatives like the Premier's Award for Queensland exporters.

Given the current challenging environment for exporters with the high exchange rate, difficulties in obtaining credit and uncertainty regarding global economic growth, particularly from Europe, the next Queensland Government should ensure that proactive assistance to exporters continues regardless of their industry.

We call on the next Government to:

- continue to fund more overseas trade missions for businesses, particularly smaller businesses that want to expand into overseas markets, to participate and to facilitate co-funding exporters' businesses trips overseas to establish and/or increase contacts with overseas business partners. Such networks help to increase the chances of smaller Queensland businesses being able to successfully break into new overseas markets.
- Ai Group urges the Queensland Government ensure a continuation of targeted assistance for business participation in trade missions.
- Ai Group also calls on ongoing assistance for Queensland exporters beyond the initial assistance of establishing export relationships. Further advice and support to help businesses further grow exports would benefit the state's economy.
- Ai Group also calls on the next Government to take advantage of the Queensland universities' graduate diaspora to build relationships between local and foreign companies. This includes developing a program of incoming trade visits, which can link local businesses into global supply chains.

Recommendation:

- **Queensland has a strong record in international trade. Ai Group encourages the next Government to draw on the state's strengths to develop a clear strategy to boost export opportunities of Queensland businesses.**