THE SUSTAINABLE SMART STATE

Industry Perspectives for Queensland's Smart State Vision

FEBRUARY 2008

Ai Group Submission on the 2008/09 Queensland Government Budget Priorities

AUSTRALIAN INDUSTRY GROUP

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Introduction

In the past decade the Smart State vision has played an integral role in delivering a quantum shift in the mindset of Queensland.

Year by year the results have accumulated to the extent that Queensland can not only cast aside many of the deprecating labels assigned to it by its southern counterparts but moreover, revel in its emergence as a true front runner in the national economy.

To accept this strong national position as an end in itself would, however, be very disappointing. It now matters little what Queensland's position is in relation to its State counterparts. What matters most is how it benchmarks against the best in the world.

It should be recognised that Queensland's prosperity over the past decade is not simply an outcome of the Smart State vision. In its current form Smart State is as much an encapsulation of optimism as it is a policy instrument. It has been the vehicle for renewal and self belief, but underpinned heavily by the rapid rise of globalisation.

The extent to which each has played a role in the transformation of the State is, however, not worth debate, suffice to say that without Smart State, Queensland would have run a serious risk of being unable to change in pace with global markets.

In its first decade Smart State was the test bed for how innovation could be fostered in a modern economy. In its latter half its vision widened to consider the role of human capital in accelerating industry growth and innovation. Today, Smart State is fast emerging as a catch all term that seems appropriate to capture issues as varied as water fluoridation to the enhancement of transport networks.

On one hand this is a pleasing development. The fact that the term can be used as a broad benchmark for public policy means that it becomes a constant reminder for government in relation to the core expectation of the Queensland community that the State operates with a distinct eye on the future.

On the other hand, however, this definitional change for 'Smart State' serves as an alarm bell to us all as to what the term actually means and how it should be measured.

Negotiating this problem is by no means simple, as it would seem disadvantageous to Queensland in the long run to lose the popular thrust of the term at a time when it has finally become entrenched in the State's lexicon.

Resolving this situation requires a global perspective. That is, the third phase of Smart State is one where Queensland must pit its ingenuity against that of world leaders across all the key indicators on all key issues, from climate change to industry innovation. Queensland is a highly diversified, open market and it is the logical next step to develop a more robust set of parameters by which to measure its competitiveness on a world stage.

As one of Australia's leading industry organisations, with members across a broad range of industry sectors, Ai Group has a key stake in the Smart State vision. Our members play a critical role in driving the economic prosperity of the state, not only in the industries of strategic importance, but across regional Queensland as well.

This statement serves two purposes. It details the Ai Group's response to the Smart State strategy discussion paper, and it also outlines Ai Group's submission for the next Queensland Budget 2008-09.

Our rationale for doing this is simple. We believe the Smart State vision should permeate all Government priorities, and a truly "Smart State" will play a critical role in supporting Queensland firms compete on the global stage, and meet the challenges of a modern, innovation-based economy.

As such, this statement includes a series of broad overarching priorities, underpinned by some specific, practical and useful recommendations that will help support the Smart State vision. These priorities and strategies are supported by extensive Ai Group research, and member feedback.

In brief, our priorities are:

1. Skills: A World Leader
2. Innovation – spreading the Smart State wider, deeper and higher
3. Infrastructure – focus on transportation and freight
4. Smart Government
5. Global engagement
6. Climate Change – increasing industry engagement

We see this statement as part of an ongoing dialogue with the Queensland Government, and would welcome the opportunity to discuss the document in more detail.

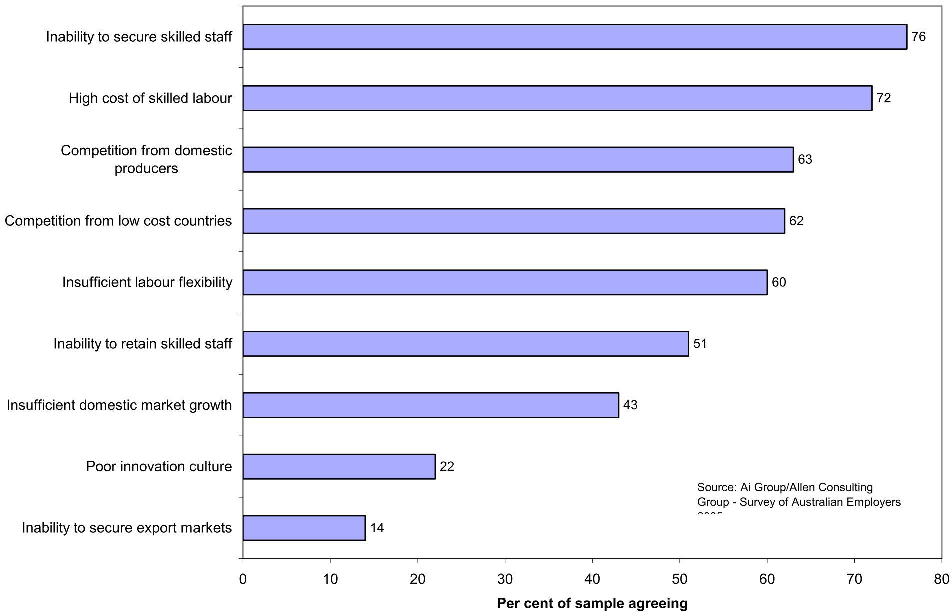
Priority 1 – Skills: A World Leader

Skills are a fundamental part of the Smart State vision, and are critical in underpinning all priorities related to the Smart State vision, such as innovation, productivity and global engagement.

For instance, skill concerns are consistently rated by Ai Group members as being the key capacity constraint holding back further expansion of their businesses, and in preventing their business adapt to the contemporary economic environment.

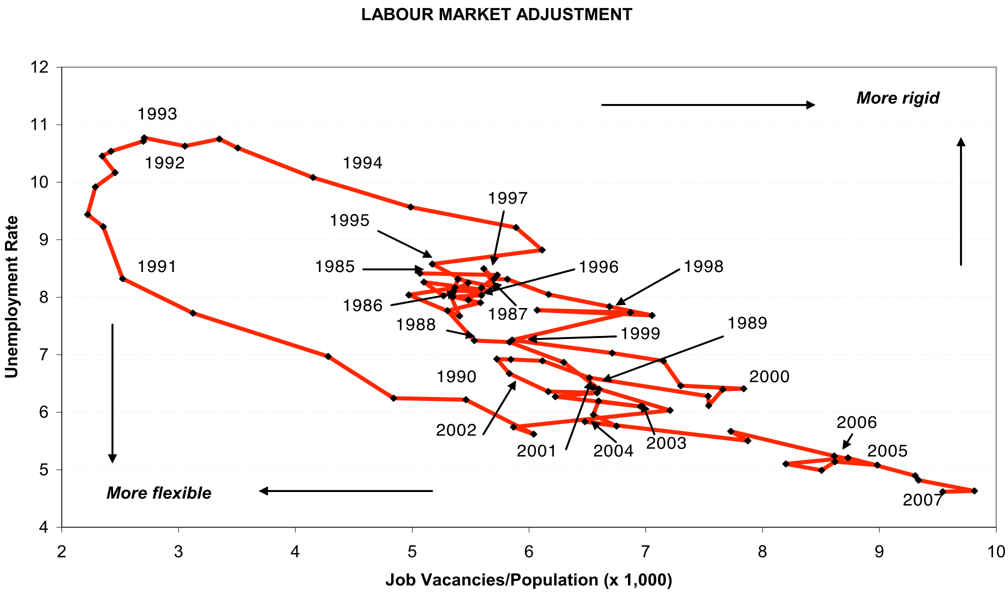
As part of research for Ai Group's *World Class Skills for World Class Industries: Employers' Perspectives on Skilling in Queensland* (July 2006), the "inability to secure skilled staff" and "high cost of skilled labour" were identified as the top two reasons identified by employers as barriers to company success over the next three years. This is indicated in Figure 1 below.

Figure 1: Barriers to company success over the next three years: Queensland
Will the following barriers to your company's success over the next three years?



Skills issues are more acute now than ever. The chart below plots the unemployment rate against the job vacancies/population since 1985. The chart indicates that not only do we have the lowest unemployment rate over this period; we have the highest proportion of job vacancies. This highlights the labour shortage currently being faced by industry.

Figure 2 Unemployment Rate and Job Vacancies 1985 - 2007



Source: ABS (Cat 6354.0 and 6202.0)

In view of the above, Ai Group's priorities for addressing the skills crisis include:

- *Capacity of VET providers* - building the capacity of vocational education and training (VET) providers to meet the contemporary needs of industry is one of the most critical areas requiring attention. Feedback from our members indicates that whilst some progress has been made, there is still some distance to travel in developing a flexible, innovative and client-focused system of providers that meets the needs of the modern economy. For example, research undertaken for *World Class Skills for World Class Industries* showed significant barriers for employers being able to access training for employees:
  - More than half (56 per cent) said training cannot be accommodated around work demands
  - Less than a quarter (24 per cent) believed TAFE training to be "world class" and
  - Around one-third (36 per cent for non-apprentice training and 29 per cent for apprentice training) considered private provider training to be world class[1].
- *Skilled migration* - skill shortages need to be addressed from a number of areas, not just through the education and training system, but also through skilled migration strategies – attracting the best and the brightest workers from across the world into Queensland.
- *Disengaged young people* - There are still a disproportionate number of young people disengaged from education, training or work. This is despite Queensland's strong economic position, the continuing need for a skilled workforce, and the ageing

[1] Ai Group and Allen Consulting Group (2006) *World Class Skills for World Class Industries: Employers' Perspectives on Skilling in Queensland* Report to the Australian Industry Group, July 2006, p 61, 69

population. Ai Group's recent joint report with the Dusseldorp Skills Forum (*Its Crunch Time: Raising Youth Engagement and Attainment – A Discussion Paper*)[2] highlighted the significant proportion of young people still not fully engaged in education, training or work. For example, in May 2007, over half a million (526,000) young Australians aged 15 to 24 years were neither in full time work or full-time study.

- *Continued refocusing of training system towards existing workers* – many of the people that will need higher skills are already in the workforce, and the current training system has historically had a heavy emphasis on entry-level training. A fundamental re-orientation is still necessary to effectively support and encourage upskilling and reskilling, in addition to entry-level training.

- *Shared responsibility* - the changing nature of Queensland's skill requirements calls for a shared responsibility between individuals, employers and governments, and between Commonwealth and State Governments.

Ai Group recognises the efforts of the Queensland Government on skills, as evident in the 2006 Skills Plan, and associated reforms as part of the Education and Training Reforms for *the Future*, including the introduction of the preparatory year of schooling and the "learning or earning" reforms. Ai Group is also very supportive of the Government's recent focus towards developing a ten year plan for Science, Technology, Engineering and Mathematics (STEM) education and training.

However, we believe more immediate action is necessary.

In particular, whilst the policy frameworks are very promising, the *implementation* and *delivery* needs major attention, right across the education and training spectrum. Whilst there are pockets of excellence, our members report highly variable levels of performance and dissatisfaction with aspects of the education and training systems.

We believe the following recommendations should be considered as making a substantial contribution to addressing skill and labour shortages. These strategies are not an exhaustive list – rather, they represent where industry believes the greatest gains can be made.

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[2] Ai Group and Dusseldorp Skills Forum (2007) *Its Crunchtime: Raising Youth Engagement and Attainment – A Discussion Paper*, p11.

Recommendations: *Skills - A World Leader*

1. *Skilled migration* – Increasing skilled migration strategies should be a key plank in addressing Queensland's immediate skill needs. This should include targeted campaigns and offices in all major English-speaking countries to encourage skilled migrants to Queensland.

2. Greater focus on *building the capacity of VET providers* to respond to contemporary industry needs. This includes:

   - *Sustainable resourcing for Skills Tech Australia*. Skills Tech Australia is a centre piece of the Government's Skills Plan, and is an area where the Government has shown national leadership in building a public training provider specialising in manufacturing and construction. Unfortunately, feedback from our members indicates that Skills Tech is yet to deliver on many of its promises, and we believe there needs to be close scrutiny as to whether the amount of government investment in Skills Tech is sufficient in ensuring it can meet its stated objectives.
   - *Mechanisms to encourage greater client responsiveness* by VET providers, including:

     a. Fostering greater competition in the VET market and putting more funding in the hands of VET customers, such as through mechanisms such as:
        i. changing the way government funding is allocated to give greater purchasing power to the consumers of training – employers and individuals
        ii. reducing restrictions on government providers where they exist to allow them more freedom to respond to employer needs
        iii. promoting best practice amongst providers
        iv. exploring options to allow greater partnering with industry in the provision of state-of-the-art equipment and facilities.

     b. Providing better information in the market about providers, including *public reporting* on the quality and types of services provided by VET providers. Such public reporting is already undertaken in Victoria, and in other parts of the education and training system Queensland (eg senior secondary schools in Queensland have been publicly reporting on school outcomes since 2006)

Recommendations: *Skills - A World Leader (continued)*

1. *New federalism for skilling -* Ai Group urges the Queensland Government to work towards a new federalism for skilling to ensure that allocated funding is utilised effectively and efficiently; that the quality of training delivery is raised; that there is real portability of skills; that duplication is removed and synergies between the various strands of training delivery are achieved; and that industry's needs for skills are well understood and delivered on.

2. A *strengthened dialogue between the schools sector and industry* to improve the relevance of school education to current industry needs, at both a statewide and local level. Industry should play a greater role in syllabus and curriculum design and teacher professional development, and at the local level through fostering school-industry partnerships. Possible mechanisms for such a dialogue could include:

    a. A high level schools-industry roundtable, chaired by the Minister for Education and Training, and including senior representatives from industry and government.
    b. Mechanisms to encourage greater industry involvement in matters relating to curriculum, assessment and certification processes of the Queensland Studies Authority
    c. Better systemic support for local school-industry links, including financial support

3. A *comprehensive strategy for careers advice* within Queensland schools.
   Ai Group is concerned that there is not a comprehensive approach to career advice within Queensland schools.

   We recommend that following an audit of career advice support available to young Queenslanders, resources should be directed towards ensuring that, as a general principle, *every Queensland secondary school student should have access to high-quality, individualised career advice*.

   This network would maximise the potential of the initiatives introduced within the *Education and Training Reforms for the Future* package, such as the Senior Learning Management Information System (SLIMs), the Student Education and Training (SET) planning process, the Career Information Service, and the new Queensland Certificate of Education. The initiative should also complement Skilling Solutions Queensland and Commonwealth Government initiatives.

   As an initial step, Ai Group would also recommend that funding be allocated to the Department of Education, Training and the Arts to support the employment of 50 career advisors across State and non-State schools in areas of highest need.

Priority 2 – Innovation – spreading the Smart State wider and deeper

The Smart State needs to spread wider and deeper. We know that some individuals and some businesses are the best in the world – what we need to focus on is to "bring the average up".

The Smart State needs to be embedded into the work of more businesses, individuals and institutions, and pursued beyond research and development initiatives.

Innovation needs to continue to be placed front and centre of the Smart State, and permeate all business processes and activities.

The innovation agenda should also be closely linked in with eco-efficiency, and encourage Queensland firms to adopt innovations that contribute to greater eco-efficiency.

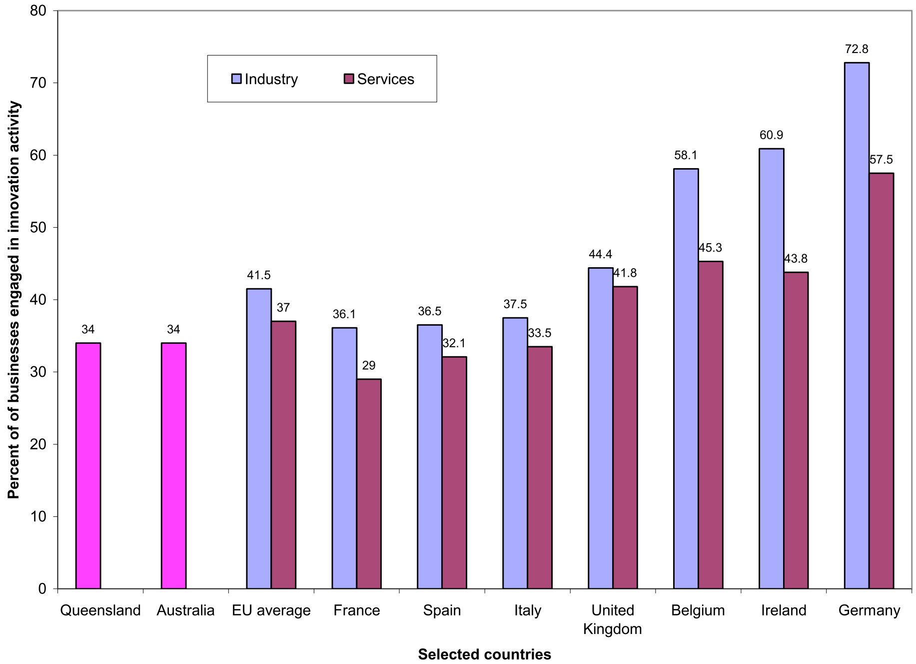
Queensland's innovation performance should be improved in two ways: to increase the proportion of innovating businesses, and to increase the intensity of innovative performance of individual businesses.

Ai Group notes the extensive work undertaken to date by the Queensland Government which aim to foster greater business innovation, across industries of strategic importance to Queensland, and in all regional centres. This includes the Centre of Enterprise initiative which aims to capitalise on the strengths and opportunities in each of Queensland's regions, and the key industries within each region.

Despite the progress achieved, there still exists the possibility for greater gains. For example, on innovation, ABS data indicates that about 34 per cent of Queensland businesses can be described as "innovative"[3]. Whilst this tracks well with the national average, it is well below international benchmarks. For example: the average of European Union countries is approximately 42 per cent, and well below countries such as Germany - 73 per cent, Ireland - 61 per cent, Belgium 59 per cent. This is indicated in Figure 3 below.

[3] ie introduced new goods or services, new operational processes and new organisational processes.

Figure 3: Enterprises engaged in innovation activity: Queensland, Australia and Selected European Countries [4].



[4] Data sourced from ABS *Patterns of Innovation in Australian Businesses 2005 (Cat5 8163.0) and Eurostat Community Innovation Statistics 61/2007 Community Innovation Survey 2004.* The data for EU countries are separated into "industry" (ie manufacturers, mining, construction) and "services", whereas for Queensland and Australia, the data is not readily broken down into comparable categories).

Recommendations: *Innovation - Spreading the Smart State Wider and Deeper*

1. *A comprehensive, strategic approach (together with resources) to foster innovation within and across businesses*. This approach would draw in strategies from across Government (eg across the Education and Training portfolio), build on existing approaches (including the Centres of Enterprise framework) and complement national initiatives on innovation. Such a strategy could include (but not be limited to):
   - Building on the framework of the Centres of Enterprise, expand the financial incentive schemes (including the Centre Business and Industry Transformation Incentives Scheme (BITI)) to foster innovation across strategic industries and regions.
   - Maximising the potential of Queensland Government procurement strategies to focus on innovation - ensuring the Government is an "intelligent customer" by using its significant purchasing power to drive innovation through public procurement.
   - Setting targets for innovation, for example, number of innovative businesses as a proportion of all businesses
   - Expanding initiatives which encourage a greater dissemination of innovation processes across all businesses, and ensuring a complementary approach to business diagnosis services across Commonwealth and State Governments.
   - Exploring initiatives that support an improved management capability of firms, such as a management capability, advisory and mentoring scheme that helps companies develop organisational capability to allow them to be agile and flexible in response to changing needs.
   - Auditing of innovation skills – reviewing existing skills of employees and managers across the State
   - New generation of innovators - Support initiatives for targeted population groups – eg young people, women etc. Explore the possibility of entrepreneurship to be developed as a senior school syllabus, and to encourage innovation and entrepreneurial activities to count towards the new Queensland Certificate of Education.

2. *Refocus the charter and membership of the Government's Smart State Council* to ensure a focus on innovation, and ensuring the membership of the Council has strong representation of members who can add insights on the diffusion of innovation across business processes and activities.

Priority 3 – Infrastructure- focus on transportation and freight

In an economic climate marked by capacity constraints and skills shortages, investment in world-class transport links and infrastructure is an avenue through which the State Government can boost the productivity and efficiency of firms.

An advanced infrastructure network is a key source of competitive advantage and underpins the fulfilment of the Smart State vision. The prosperity of Queensland industry depends more and more on the ability to engage in global markets, and regional supply chains.

Transport and infrastructure projects must be selected carefully to ensure final products are of the highest quality and widely available to end-users. They must lead to permanent improvements in the productivity and efficiency of business operations.

A long-term approach that ensures adequate public and private sector investment in Queensland infrastructure is crucial in ensuring that future needs are met. In particular, strong consideration must be given to efficient regulation; best practice public-private partnerships (PPPs); the willingness of the public sector to borrow to invest; macroeconomic conditions; and providing a rigorous approach to project evaluation. Another key focus for Queensland transport and infrastructure policy is ensuring there is a balance between freight transport needs and passenger transport.

Queensland industry is increasingly building links with overseas markets and they need to be supported by the Government through committed freight transport reform.

The quality of infrastructure is of particular relevance during the current period and capacity constraints within the infrastructure network are key constraints impacting on the ability of industry to continue to grow. In South East Queensland, this is particularly compounded by the rapid population and economic growth.

Ai Group research

In June 2006, Ai Group undertook a major survey of manufacturers across Australia on transportation and logistics activities.

The survey represented companies with almost $40 billion of global turnover and over 70,000 domestic employees. The report was entitled *Linking Australia with Global Supply Chains: Transport and Logistics Operations in Australian Manufacturing.*

The survey sought to discover the extent to which Australia's transport infrastructure is able to accommodate freight growth.

In general, the survey found significant dissatisfaction with transport networks, particularly *domestic* freight transport modes, particularly regional and interstate *rail networks*

The survey also found:

- Almost two-thirds of manufacturers attribute some increase in general transport costs to Australia's transport infrastructure network
- Transport costs also tend to increase with both the **import and export intensity** of industries
- Medium sized firms tend to be more satisfied
- Food & beverages sector most adversely affected - wood, wood products & furniture least impacted.

There were some worrying Queensland findings in particular:

- QLD manufacturers least satisfied with transport infrastructure than manufacturers in any other state
- A majority was dissatisfied with every link other than international air
- Satisfaction was lowest of all states for regional and interstate roads, and both coastal and international shipping terminals.

At a general level, Ai Group endorses the State Government's broader infrastructure program, and the prudent use of State Government borrowings to partly fund expenditure. We also congratulate the Government on fast-tracking the Northern Missing and Southern Missing Rail Links, the SEQ Regional Infrastructure Plan, and the Northern Economic Triangle.

Recommendations: *Infrastructure*

1. In view of the above, Ai Group urges a continued prioritisation of the Queensland Government's infrastructure program, with a particular focus on transport and freight infrastructure, and in infrastructure projects in regional parts of Queensland.

2. Ai Group urges the Queensland Government to support the Federal Government's plan to coordinate infrastructure planning through a new statutory body called *Infrastructure Australia*. Infrastructure Australia will report directly to State and Federal Infrastructure Ministers through the COAG. This new process, while dependant on how well COAG operates, should lead to better investment in transport, water, energy and telecommunications and must be supported by Queensland.

Priority 4 – Smart Government: better regulation, taxation and delivery of public services

If Queensland is to be a Smart State, then we need "Smart Government". The Queensland Government needs to "practice what it preaches" in how it regulates, taxes businesses and individuals, and delivers public services.

It also needs to be a cooperative partner with the Australian Government and other States and Territories in making the federation "work better".

Overall budget strategy

A responsible budget strategy is fundamental to the Smart State and the ability of the government to put in place the frameworks that allows productivity and output to grow. This includes strong discipline over spending, competitive levels of taxation and prudent recourse to borrowing to fund productivity-enhancing long lived assets.

Regulation

On regulation, despite the efforts made by the Queensland Government in recent years, we believe there is room for the Government to fast-track regulatory reform for business. Whilst business understands the general rationale for some regulation of its activities, it believes it can be done better, and in a more coordinated approach across the various agencies, and levels of government.

Delivery of public services and departmental structures

On the delivery of public services, the Smart State Vision needs to extend to the Government's own activities and operations. The state public service needs to be a leader in innovation and best practice. There is significant room for the Queensland Government to be an international leader in modernising the delivery of government services, and to improve the quality and effectiveness of public sector delivery.

Feedback from our members indicates that whilst many are broadly supportive of the government's broad *policy* directions, implementation, and the quality and responsiveness of services at the local level are highly variable.

Member feedback also indicates that complicated departmental structures and machinery of government changes impinge on the ability of government to work with industry in a coordinated, effective fashion. Industry deals with government on a range of matters – such as trade, infrastructure, industry development, innovation, employment, industrial relations, workplace health and safety, environmental regulation, taxation and education and training.

We would propose a stocktake be undertaken of the agency and department structure of the Queensland Government, with a view towards bringing together functions under a smaller number of portfolios. This would benefit not only industry, but other stakeholders, and help achieve a more coordinated approach to government policy and service delivery.

Taxation

On taxation, Ai Group acknowledges Queensland's relative competitive position compared with other States. We also applaud recent efforts (announced December 2007) to harmonise aspects of the payroll tax regime with Victoria and New South Wales.

Ai Group believes that taxation policy needs to be underpinned by an overall objective of maintaining competiveness and efficiency of Queensland's own-source taxation. To this end, we propose that a rigorous and public examination of the (opportunity) costs of different taxes be undertaken, followed by a concerted effort to secure state-wide improvements.

Our members express a particular interest in improving payroll tax, particularly given the continued buoyant growth in employment in Queensland, and "bracket creep" in increasing the number of employers required to payroll tax. As such, we believe there is room for the Government to consider reforms to payroll tax in particular.

Commonwealth/State relations

Improved Commonwealth/State relations are central in achieving better outcomes across a range of critical areas including education, health, water management, the energy sector, infrastructure, taxation, workplace relations, business regulation and the environment.

For too long, the gulf between the Commonwealth and State Governments (across Australia) has been holding back action needed to deliver better governance and to unlock gains in productivity and workforce participation. In addition, the confusion of overlapping responsibilities between the different levels of government has brought with it a lack of accountability and a blatant waste of taxpayers' funds.

Ai Group urges the Queensland Government to be an active participant in the COAG National Reform agenda. In particular, we believe that foundations of the NRA should be designed in a way that ensures incentives are structured so that all levels of government face real enticements to set and reach stretch targets.

These incentives need to include a mix of financial and political elements. They should involve payments that align with the benefits of reforms and, particularly in the case of regulatory reform, clear targets and political accountabilities need to be articulated.

Recommendations: *Smart Government*

1. *A comprehensive, government-wide strategy to improve service delivery standards, innovation, and client-responsiveness across Queensland public service activitie*s. This would include:

    a. Strategies to improve the capabilities of the public sector staff pool, raising service standards, and innovative modes of service delivery.
    b. The establishment of a new body, such as an Office for Smart Government, that would bring together regulatory reform, service delivery and performance, purchasing policy and public sector management, under the one authority. The Office would be given strong powers and sufficient resources to raise service standards, better regulate activities, foster innovation, and improve the performance capabilities of Queensland Government agencies.
    c. A stocktake of the agency and departmental structure of the Queensland Government, with a view towards bringing together functions under a smaller number of high-level departments, such as:
        i. Trade and Industry (encompassing trade, tourism, regional development and industry development activities)
        ii. Employment, Education and Training
        iii. Infrastructure (encompassing functions such as transport, main roads, infrastructure planning).
        iv. Human Services (encompassing health and community services)

2. *Improve the regulation-making processes and capabilities of the Queensland public sector*. Whilst industry recognises the need for government regulation, it believes there is some room to improve the quality of processes in designing regulation.

3. *Sustained national leadership on business taxation*, including:

    a. A rigorous and public examination of the (opportunity) costs of different state taxes, followed by a concerted effort to secure state-wide improvements
    b. A cut in payroll tax from the current level of 4.75 per cent to 4.5 per cent to maintain Queensland's competitive advantage on business taxation. Reducing the payroll tax rate is also consistent with a longer term objective of eventually abolishing payroll tax in favour of other, more efficient taxes.
    c. An increase in the payroll threshold for which employers are required to pay payroll tax. The current threshold is $1,000,000. Whilst we note the threshold was raised in the 2006/07 State Budget (from $850,000), bracket creep (as a result of more employers meeting with wages threshold and projected wage increases) means that there is room for the Government to raise the threshold.

Recommendations: *Smart Government* (continued)

4. A commitment from the Queensland Government to *support the COAG National Reform Agenda*, and to work towards real, tangible outcomes to improve Commonwealth/State relations.

5. To conduct a government-wide audit of potential government programs that could be better delivered by external partners (such as industry) on government's behalf.

Priority 5 – Global engagement

A primary goal for the Smart State strategy should be to broaden Queensland's focus to an international, rather than national stage. Queensland should no longer aim to just benchmark itself against its interstate cousins – it should be seeking to be the best in the world.

Export assistance

Export markets are crucial for many Queensland firms, providing both an important source of income and the scale needed to encourage investment in new capital equipment and innovative products and services.

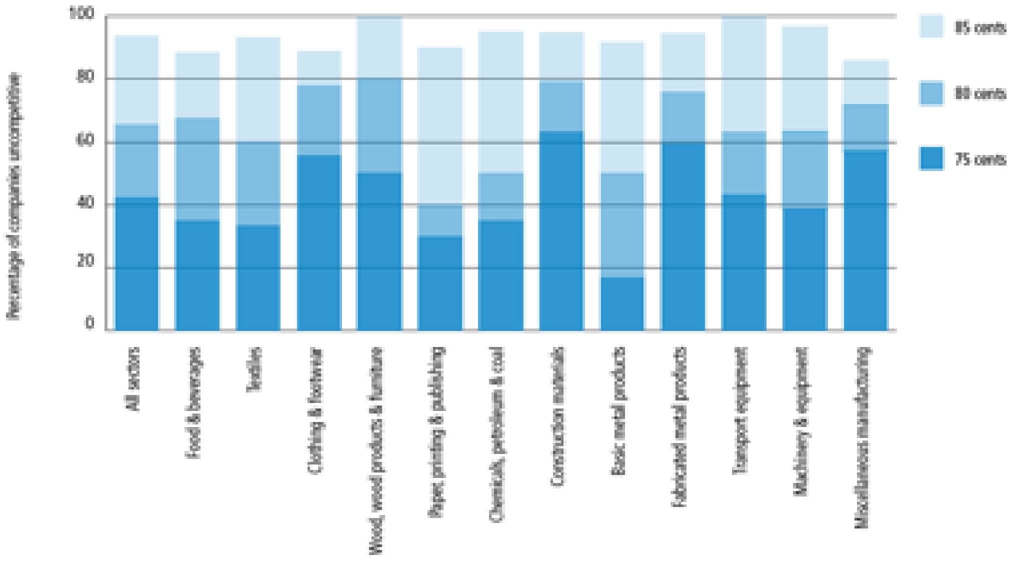
Competitive pressures mean that Australian producers must make greater use of global supply chains. Increasingly, Australian producers are sourcing both inputs and finished goods from Asian markets, particularly China.

The present strength of the Australian dollar continues to seriously affect the competitiveness of manufacturers. Early 2007 we saw the Australian dollar return to a 17 year high vis-à-vis the US dollar.

Already confronting intense pressure from rapidly emerging low-cost competitors, the renewed appreciation is an unwelcome development for local exporters, having adverse affects on earnings and prospects. A recent Ai Group report found that the recent sharp jump in the exchange rate stands to reduce the annual value of Australia's manufactured export receipts by close to $1.7billion.

Nearly two-thirds of manufacturers believe their exports are uncompetitive at an exchange rate of US$0.80, while 93.7 per cent expect to be uncompetitive should the exchange rate exceed US$0.85. See figure 4 below.

Figure 4: Sector uncompetitive at different AUD values (US cents)



Source: Ai Group survey of Australian Exporters, March 2007

Inward investment

A more comprehensive, and sophisticated approach to inward investment should also be a critical component of the Smart State agenda. Inward investment strategies - those that encourage multinational corporations to establish operations in Queensland regions - should be enhanced.

According to the Budget papers for 2007/08, in 2006/07, the Queensland Government's investment attraction activities attracted a total of 18 projects to the State, resulting in the creation of 1,108 new jobs and $900 million in capital expenditure[5]. In 2005-06, a total of 10 companies were attracted to Queensland, total funding committed to these projects was $4.1 million[6].

The Queensland Government should undertake a thorough audit of the activities of other national and international inward investment agencies, to assess their level of support for inward investment and the suitability of such strategies for the Queensland context.

Our competitor countries and regions appear to adopt a far more ambitious and comprehensive strategy to attract foreign direct investment. In the United Kingdom, the North of England Investment Agency has a number of international offices across the world focused on attracting investment to that particular region. For example, they have 11 officers based in

[5] Queensland Government, 2007-08 Queensland State Budget – Ministerial Portfolio Statement – Department of State Development.

[6] Department of State Development, Annual Report 2005/06.

North America alone[7]. Similar offices are also located in other parts of the world, including Australia.

Recommendations: Global engagement

Strategies that would make a tangible contribution towards fostering the international competiveness of Queensland firms, and in attracting greater foreign direct investment in Queensland include:

1. An enhanced export assistance strategy. Whilst we acknowledge the Queensland Government's *Driving Export Growth for Queensland Strategy 2006-2011*, we believe export assistance strategies should be revitalised.

2. An expanded *inward investment strategy* through Invest Queensland. This would include:

    a. Increasing the resource allocation to the Queensland Government's Trade and Investment Offices (QGTIOs) to ensure dedicated personnel are able to provide advice, assistance, contacts and intelligence to international companies looking to expand into Queensland.
    b. Increasing the availability and level of incentives on offer to attract businesses to Queensland.

[7] The North of England Inward Investment Agency is a team of 11 people located in 4 offices across North America. It represents the two Regional Development Agencies for the region - Northwest Development Agency and One NorthEast.

Priority 6 – Climate Change – Increasing industry engagement on environmental sustainability

As outlined in the Smart State discussion paper, sustaining our natural environment is a key part of Smart State agenda, and industry is obviously a key player in ameliorating the effects of climate change.

Ai Group, in collaboration with Sustainability Victoria, recently undertook a major survey of environmental practices of manufacturing and construction firms across Australia.

The report, entitled *Environmental Sustainability and Industry: Road to a Sustainable Future*, represented the largest survey of environment management practices to be conducted in Australia, involving a survey of 810 companies in the manufacturing and commercial construction sectors, representing 10.5 per cent of activity within the two sectors.

Key findings in the study included:

- 78 per cent of companies believed they had a responsibility to contribute to a reduction in carbon emissions, even if it increased costs to the business.
- One quarter of firms identified one or more high risks from climate change, while a further 44 per cent identified medium level risks.
- Loss of competitiveness due to cost pressures was considered to be the highest risk deriving from climate change.
- 73 per cent of large firms had a written environment policy.
- Around 40 per cent of companies indicated they had taken one or more actions to lower greenhouse emissions, undertaking research and collaboration with other firms, investing in new technology and processes, and fully offsetting emissions.
- The majority of companies saw opportunities from climate change to promote their company as socially responsible.
- The most critical priority identified by companies was managing electricity usage, however close to 45 per cent of firms considered reduction of water usage another major priority.
- Only 14 per cent of companies stated they understood the concept of an emissions trading scheme (ETS) well or very well while 40 per cent said they had no understanding at all. Unsurprisingly, therefore, 69 per cent of companies were undecided on their support for an ETS for Australia.
- The vast majority of activity on environmental sustainability has been undertaken by companies using their own funding.

In relation to the survey findings for Queensland, the State is ahead of all other States in ranking the opportunities ahead of the costs when it comes to the impact of climate change. Queensland also indicated the highest proportion of firms who believe they have a responsibility to lower carbon emissions, and who are more likely to adopt measures in this area.

Conversely, Queensland firms displayed the lowest level of engagement with suppliers on environmental considerations.

We recognise the Queensland Government's EcoBiz program as a strategy to assist companies to achieve increased profitability and sustainability. However, we believe that a review needs to be undertaken of its structure and delivery mechanisms to ensure a greater uptake in the program from industry.

Organisations such as the Australian Industry Group can assist the Environmental Protection Agency in achieving some of the objectives outlined above. Organisations such as ours have considerable expertise in working with industry, and in identifying energy and environmental needs of firms, particularly in the manufacturing and construction sectors.

Product design

We believe there is room for the Queensland Government to introduce greater incentives for Queensland companies to invest in new eco-efficient technologies and processes, and to design and manufacture products that can easily be disassembled, reused or recycled, and to be designed so they can be recycled and with the waste hierarchy in mind.

Commonwealth/State issues

It is important that any state initiatives in this area complement Commonwealth programs and strategies aimed at similar ends. For example, in relation to climate change, Ai Group believes Queensland should cooperate closely with the Commonwealth in ensuring an efficient and coordinated national response with appropriate allocation of regulatory and incentive arrangements between the different levels. Under this approach, the Commonwealth Government should handle the emissions trading schemes and any national energy targets and states/territories might concentrate on programs assisting industry adapt and become more energy efficient.

Recommendations*: *Climate Change – Increasing Industry Engagement

1. Revamp of the EcoBiz program, including:

    a. Consideration of a new framework for delivery of the scheme, including an outsourcing of key components to partner agencies, such as industry and trade bodies.
    b. Expansion of general marketing of the scheme to Queensland industry to raise the general awareness of EcoBiz products to a broader cross-section of Queensland industry
    c. Tailoring EcoBiz products to target industries and sectors, such as high energy, water and material users
    d. Tailoring programs for individual businesses identifying eco-efficient measures, at a subsidised cost

2. Financial incentives for design and manufacture products that can easily be disassembled, reused or recycled, and to be designed so they can be recycled and with the waste hierarchy in mind.

Conclusion

This statement has served two purposes: to outline Ai Group's view on the next phase of the Queensland Government's Smart State vision, and to put forward industry priorities for the 2008/09 State Budget.

As stated above, we believe the Smart State vision has played an integral role in delivering a quantum shift in the mindset of Queensland, and has helped make Queensland a national leader on several fronts.

However, to accept this strong national position as an end in itself would, however, be very disappointing, and much more needs to be done.

In this statement, we have outlined a series of recommendations which, we believe, will truly help Queensland become an international leader in skills, innovation, global engagement and in responding to climate change. These recommendations are summarised below.

Skills: A World Leader

1. *Skilled migration* – Skilled migration strategies should be a key plank in addressing Queensland's immediate skill needs, including targeted campaigns and offices in all major English-speaking countries to encourage skilled migrants to Queensland.

2. Greater focus on *building the capacity of VET providers* to respond to contemporary industry needs. This includes *sustainable resourcing for Skills Tech Australia* and me*chanisms to encourage greater client responsiveness* by VET providers

3. *New federalism for skilling* - Ai Group urges the Queensland Government to work with the Australian Government and other States and Territories towards a new federalism for skilling.

4. A *strengthened dialogue between the schools sector and industry* to improve the relevance of school education to current industry needs, at both a statewide and local level. This includes a high level schools-industry roundtable, mechanisms to encourage greater industry involvement in matters relating to curriculum, assessment and certification processes of the Queensland Studies Authority, better systemic support for local school-industry links, including financial support.

5. A *comprehensive strategy for careers advice* within Queensland schools. Following an audit of career advice support available to young Queenslanders, resources should be directed towards ensuring that, as a general principle, *every Queensland secondary school student should have access to high-quality, individualised career advice*. As an initial step, Ai Group would also recommend that funding be allocated to the Department of Education, Training and the Arts to support the employment of 50 career advisors across State and non-State schools in areas of highest need.

Innovation – spreading the Smart State wider, deeper and higher

1. A *comprehensive, strategic approach (together with resources) to foster innovation* within and across businesses, draw in strategies across, build on existing approaches and complement national initiatives on innovation. Building on the framework of the Centres of Enterprise, expand the financial incentive schemes (including the Centre Business and Industry Transformation Incentives Scheme (BITI)) to foster innovation across strategic industries and regions.

2. *Refocus the charter and membership of the Government's Smart State Council* to ensure a focus on innovation, and ensuring the membership of the Council has strong representation of members who can add insights on the diffusion of innovation across business processes and activities

Infrastructure – focus on transportation and freight

1. A continued prioritisation of the Queensland Government's infrastructure program, with a particular focus on transport and freight infrastructure, and in infrastructure projects in regional parts of Queensland.

2. Support of the Federal Government's plan to coordinate infrastructure planning through *Infrastructure Australia*.

Smart Government

1. A comprehensive, government-wide strategy to improve *service delivery standards, innovation, and client-responsiveness across* Queensland public service activities. This would include:

    a. *Strategies to improve the capabilities of the public sector staff pool*, raising service standards, and innovative modes of service delivery.
    b. The establishment of a new body, such as an <u>*Office for Smart Government*</u>, that would bring together regulatory reform, service delivery and performance, purchasing policy and public sector management, under the one authority.
    c. A <u>stocktake of the agency and departmental structure of the Queensland Government</u>, with a view towards bringing together functions under a smaller number of high-level departments, such as:
        i. Trade and Industry (encompassing trade, tourism, regional development and industry programs)
        ii. Employment, Education and Training
        iii. Infrastructure (encompassing functions such as transport, main roads, infrastructure planning).
        iv. Human Services (encompassing health and community services)

2. *Improve the regulation-making processes and capabilities of the Queensland public sector*.

3. *Sustained national leadership on business taxation*, including a rigorous and public examination of the (opportunity) costs of different state taxes, followed by a concerted effort to secure state-wide improvements, a cut in payroll tax from the current level of 4.75 per cent to 4.5 per cent to maintain Queensland's competitive advantage on business taxation, and an increase in the payroll threshold for which employers are required to pay payroll tax.

4. A commitment from the Queensland Government to *support the COAG National Reform Agenda*, and to work towards real, tangible outcomes to improve Commonwealth/State relations.

5. To conduct a government-wide audit of potential government programs that could be better delivered by external partners, such as industry, on government's behalf.

Global engagement

1. An *enhanced export assistance strategy*, building on the Qeensland Government's *Driving Export Growth for Queensland Strategy 2006-2011*.

2. An expanded *inward investment strategy* through Invest Queensland. This would include increasing the resource allocation to the Queensland Government's Trade and Investment Offices (QGTIOs) to ensure dedicated personnel are able to provide advice, assistance, contacts and intelligence to international companies looking to expand into Queensland; and increasing the availability and level of incentives on offer to attract businesses to Queensland.

Climate Change – increasing industry engagement

1. *Revamp of the EcoBiz program*, including expansion of general marketing of the scheme to Queensland industry to raise the general awareness of EcoBiz products to a broader cross-section of Queensland industry, tailoring EcoBiz products to target industries and sectors, such as high energy, water and material users, tailoring programs for individual businesses identifying eco-efficient measures, at a subsidised cost, and consideration of a new framework for delivery of the scheme, including an outsourcing of key components to partner agencies, such as industry and trade bodies.

2. Financial incentives for design and manufacture products that can easily be disassembled, reused or recycled, and to be designed so they can be recycled and with the waste hierarchy in mind.

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