

# Queensland Productivity Commission (QPC) Draft Report Manufacturing in Queensland – 20 July 2017

## Response by the Department of State Development (DSD)

Comments on the report's 10 draft recommendations and areas for which further views are being sought are set out below.

### **Recommendation 1 – Action plan**

#### **Summary of recommendation**

- *The Queensland Government should adopt an action plan for the manufacturing sector, centred on broad-based policy reform rather than on firm-or manufacturing-specific assistance.*
- *Policies and programs underpinning the plan should be designed and managed for performance.*
- *Draft Recommendations 2–10 set out the detailed policy reforms to support the action plan.*

#### **Comments/implications**

- A strong policy base for assistance to the manufacturing sector has been developed through the Queensland Government's Advanced Manufacturing 10-Year Roadmap and Action Plan (the roadmap) released 14 December 2016.
- Part of the government's Advance Queensland agenda, the roadmap is designed to set a path for the growth of advanced manufacturing, fostering the continued transition of existing manufacturers into world-class advanced manufacturers and creating high-paid, sustainable jobs for Queenslanders.
- The roadmap was developed through consultation with industry and other stakeholders with over 100 respondents. It has also benefited from the expert input of the Industry and Manufacturing Advisory Group (IMAG) established in November 2015.
- The initiatives in the roadmap are based on research into national and international policies and assistance measures.

### **Recommendation 2 – Energy Policy**

#### **Summary of recommendation**

- *Energy Policy and regulation should promote long-term consumer interests and efficient energy prices.*

#### **Comments/implications**

- The consultation conducted during the development of the roadmap identified energy costs as a major concern for manufacturing industry.
- The evidence in the draft report supports this concern. Given that energy is a major input to manufacturing, higher costs for energy will adversely affect the competitiveness of manufacturers.
- However, it is unclear whether the draft report is calling for strong direct intervention or initiatives that encourage support for manufacturing in particular.
- In terms of direct intervention, the Queensland Government is currently developing the *Queensland Gas Supply and Demand Action Plan*, with the aim of addressing supply barriers.
- In regard to assisting manufacturers to address energy costs, DSD, under the auspices

of the roadmap, has commissioned a series of case studies on sustainability identifying ways in which manufacturers can address the costs of energy, water and waste in their operations

- DSD is also supporting the transition to clean energy through:
  - facilitating the development and construction of several large renewable energy projects (e.g. the Coopers Gap Wind Farm and the Kidston Project)
  - rolling out the Advance Queensland Biofutures 10-Year Roadmap and Action Plan
  - working with the Department of Energy and Water Supply (DEWS) and industry to assess the feasibility of developing a large-scale battery manufacturing facility in Queensland.

### **Recommendation 3 – State taxes**

#### **Summary of recommendation**

- *The state tax system should be reformed by removing or reducing distortionary taxes (such as stamp duties and insurance levies) and moving towards less distortionary taxes (such as broad-based land and payroll taxes).*

#### **Comments/implications**

- This is the responsibility of Queensland Treasury.
- It is noted that, while the draft report focuses on tax efficiency, it does not recognise that Queensland taxes are lower than other states.

### **Recommendation 4 – Procurement**

#### **Summary of recommendation**

- *In developing the new procurement model, the Queensland Government should:*
  - *establish a single procurement policy based on a single objective—value for money*
  - *remove impediments to local firms participating in procurement*

#### **Comments/implications**

- The Queensland Government has recently released a new Queensland Procurement Policy (QPP) which will prioritise Queensland businesses, support local jobs in regional communities and achieve positive outcomes for Queensland.
- The new QPP aims to advance the government's economic, social and environmental objectives and support the long-term wellbeing of the community by leveraging government spend. The policy incorporates the ability to apply a local benefits test where a weighting of up to 30 per cent may be applied, inviting one regional and one Queensland supplier to quote or tender, improving the visibility of project pipelines, encouraging innovation, and utilisation of local contractors and manufacturers. The QPP will also assess value for money holistically using strengthened data and analytics.
- The *Queensland Industry Participation Policy Act 2011* and the Queensland Charter for Local Content, together with the new QPP, work to maximise opportunities for local suppliers.
- Through the Queensland Charter for Local Content, DSD provides a robust approach to supporting major projects meeting the Charter thresholds, ensuring local suppliers are obtaining full, fair and reasonable access to tender opportunities and obtaining value for money for Queensland. This includes:
  - Building the capability of companies to enter the supply chain
    - assisting companies develop their capability statement, prepare responses to the assessment criteria for tenders, understanding the procurement processes for major projects to increase the likelihood of success by targeting the right opportunity based on their company's capability and capacity, ensure

- they know how to successfully complete contracts, market and pitch effectively to buyers, and undertake innovation and process improvement to reduce costs to remain competitive and sustainable.
- Supplier and buyer assistance
  - assisting buyers find capable local suppliers, unbundling work packages to assist local suppliers tender, matching supplier capability to work packages, assisting suppliers improve their profile on the Industry Capability Network to access work across Australia, introducing buyers and suppliers, and providing suppliers with information on major project opportunities.
- Legislative compliance
  - ensuring that companies have maximised the opportunities for local businesses to provide full, fair and reasonable access to tender opportunities.
  - Provision of templates, tools and guidelines to assist meeting Charter requirements.
- This approach has demonstrated the success of the Queensland Government’s policies in achieving high levels of local content in project delivery and its commitment to supporting Queensland businesses and growing local jobs.

### **Recommendation 5 – Vocational Education and Training (VET)**

#### **Summary of recommendation**

- *Reform the VET sector in specific ways:*
  - *provide for emerging markets/ reduce compliance costs/ better-targeted training*
  - *establish the right incentives for providers*
  - *optimise the funding model.*

#### **Comments/implications**

- The Queensland Government is already undertaking VET reform initiatives including *Skilling Queenslanders for Work*, *Rescuing TAFE* and the establishment of the Queensland Training Ombudsman. A current initiative, *Advancing skills for the future: a strategy for vocational education and training in Queensland* is being finalised. Additionally, the Queensland VET Quality Framework was introduced in May 2017.
- DSD is working with Jobs Queensland to develop an Advanced Manufacturing Skills, Training and Workforce Development Plan.

### **Recommendation 6 – TIQ and DSD investment facilities’ activities**

#### **Summary of recommendation**

- *Reorganise the investment facilitation activities of TIQ and DSD to:*
  - *address the information barriers to firms locating in Queensland*
  - *identify opportunities to reduce/streamline regulation—so there are fewer government requirements to navigate, at a lower cost.*

#### **Comments/implications**

- The draft report states that TIQ and DSD appear to offer similar services, possibly to similar clients and suggests that TIQ and DSD address the information barriers to firms locating in Queensland.
- The following is a short summary of some actions currently being undertaken to support enterprises.
  - DSD’s industry attraction services are focused on attracting companies and projects to Queensland from other Australian jurisdictions and assisting Queensland-based companies expand their existing operations in Queensland.
  - TIQ’S investment attraction services are directed at attracting internationally based firms and projects (and investment) to Queensland.

- DSD and TIQ work closely together to ensure that clients are transitioned between the two organisations, where appropriate, and that client uncertainty is addressed.
- As recognised by the report the Queensland Government has launched its whole-of-Government *Queensland Trade and Investment Strategy* which provides a coordinated framework for all Queensland Government agencies delivering investment attraction services. Key components of the TIQ Strategy include establishing a new concierge service to manage trade and investment inquiries, a new case management service for investors and a new case management network that will include DSD, through which the two agencies will be able to streamline the provision of information and assistance to international firms interested in locating in Queensland. The Case Management initiative, in particular, is focused on enhancing the coordination of investment inquiries and strengthening the service offering to investors.
- DSD has developed its *Why Queensland Research Hub* which provides a suite of information detailing why Queensland is the foremost location to investment which is available to all agencies to use.
- TIQ has a web-related initiative focused on improving digital engagement with stakeholders. DSD is finalising web content to encourage more Australian based firms to establish new economically valuable projects in Queensland. TIQ and DSD have been cooperatively developing web content and messaging and this is supported by the other agencies which comprise the Advance Queensland Industry Attraction Fund (AQIAF)/Jobs and Regional Growth Fund (JRGF) Panel.

### **Recommendation 7 – Regulatory stocktake and reform**

#### **Summary of recommendation**

- *Commission an independent stocktake of the regulations that affect key subsectors of the manufacturing industry. Identify reform areas to improve productivity. Include areas to:*
  - *reduce unnecessary regulatory burden and pursue regulatory objectives in more efficient (least cost) ways*
  - *better coordinate action across (Australian, state, local) governments to reduce unnecessary overlaps.*

#### **Comments/implications**

- The Queensland Government is already undertaking a reform program through the Red Tape Reduction Advisory Council (RTRAC)/Better Regulation Taskforce to improve the regulatory environment for all businesses including manufacturers. This recommendation may duplicate elements of the existing reform process.

### **Recommendation 8 – Investment attraction incentives**

#### **Summary of recommendation**

- *Avoid providing investment attraction incentives to individual firms unless it can be demonstrated that there are likely spillovers that would otherwise not occur. If the government does provide incentives it should ensure transparent processes, grants are linked to measurable outcomes, and annual reporting on project outcomes and performance against milestones.*

#### **Comments/implications**

- DSD already has a range of programs to assist businesses and attract investment. These include the Advance Queensland Industry Attraction Fund (AQIAF), Jobs and Regional Growth Fund (JRGF), and the Made in Queensland (MIQ) Program. Individual assistance can be justified on the basis there is a transparent and rigorous process for

- allocating grants.
- In regard to outcomes and performance, DSD has prepared case studies on successful instances of investment attraction. Examples include:
  - Oji - <http://statedevelopment.qld.gov.au/news-and-events/oji-fibre-solutions.html>
  - Sunny Queen Eggs - <http://statedevelopment.qld.gov.au/news-and-events/feathering-queenslands-nest.html>

### **Recommendation 9 – Innovation and entrepreneurial programs**

#### **Summary of recommendation**

- *The Queensland Government should consolidate its more than 25 innovation and entrepreneurial programs to target three key areas—increase beneficial knowledge spillovers; improve information access; and address coordination problems.*
- *For each remaining program, the government should establish measurable objectives, measure and monitor program performance, evaluate programs and publicly report the outcomes.*

#### **Comments/implications**

- Reflecting international best-practice, Advance Queensland represents a systems approach to building Queensland innovation. Strength is needed in all parts of the system to ensure success.
- Advance Queensland investments are designed to bridge market and systems failures within key elements of innovation:
  - inspire Queenslanders through programs to engage with science and technology, be entrepreneurial and take their ideas to the world
  - discover new solutions to improve everyday lives through programs to foster current and future talent and enable researchers and industry to solve global challenges here in Queensland
  - connect Queenslanders to world-leading local and international innovators through programs that encourage collaboration and build the entrepreneurial ecosystem
  - invest in Queensland innovation through programs to encourage seed funding, venture capital and deal-flow, and foster emerging industries
  - grow the competitiveness of our businesses, industries and regions through programs to accelerate growth and unlock new markets and opportunities.
- Advance Queensland programs have been designed based on:
  - research into successful innovation programs overseas
  - co-design processes with key stakeholders and
  - informed by the Advance Queensland Expert Panel and Queensland Chief Scientist.
- Over time, Advance Queensland programs will be consolidated based on impact. Any consolidation will be based on evaluation undertaken over time, as well as expert input.
- Advance Queensland programs are underpinned by individual program logic models; and an overarching Evaluation Framework.
- The QPC report notes that it is too early to evaluate the success of most Advance Queensland programs as yet. AQ has an evaluation framework and a pathway to conduct evaluations in coming years, at an individual program level, for clusters of programs, and at a whole-of-initiative level.

## **Recommendation 10 – Retraining and labour mobility**

### **Summary of recommendation**

- *The Queensland Government should:*
  - *provide early training assistance where there are planned firm closures*
  - *remove barriers to labour mobility across regions in Queensland, particularly in relation to housing, occupational/business licensing and stamp duty*
  - *go beyond retraining programs and adopt practical alternatives for older, low-skilled manufacturing workers who are displaced.*

### **Comments/implications**

- The specific recommendations are broad and have impacts far beyond manufacturing industry and are complex in nature.
- DSD provides worker transition support including:
  - The Back to Work – South East Queensland Employment Package (Back to Work SEQ) is a one-year \$27.5 million initiative designed to give businesses the confidence to employ long-term unemployed and unemployed young jobseekers in South East Queensland (SEQ). This program aims to facilitate unemployed jobseekers into the labour market and support them to create a strong connection to the labour force. Employer Support and Youth Boost Payments will be available for employers who hire an eligible jobseeker between 1 July 2017 and 30 June 2018 (subject to the availability of funds).
  - Worker transition support assists job seekers with access to financial assistance, information and support, training and career information, help with debt and bills and access to mental health services. The Worker Transition Scheme was originally developed to coordinate the Queensland Government's response, and provide assistance and information for those affected by the Queensland Nickel Refinery's voluntary administration.
- DSD investigated a “firms in difficulty” type arrangement when developing the roadmap. It was found that it is virtually impossible to find out about “planned firm closures” in advance of the closure. This is acknowledged in the report with the statement that “It is difficult to identify with certainty the Queensland industries or regions more likely to be affected by structural change and when problems may emerge”.

## **SEEKING FURTHER VIEWS**

### **1. Management capabilities**

*Management capabilities in Australian manufacturing appear to be below global leaders. The Commission is seeking further views about the role of management training and education in manufacturing businesses.*

*What stops businesses and workers from investing in management education and training?*

*Are the current programs delivered by TAFE Queensland, universities and private providers sufficiently available to, designed for and targeted at Queensland manufacturers and are there any gaps?*

*If there is a role for improved management training and education, who would be best placed to deliver it to Queensland manufacturing businesses?*

*If there is a role for improved management training and education, what capabilities should be focused on and what format should courses be presented in, to ensure they meet users' needs?*

## Answer

- DSD acknowledges the finding that Australian manufacturing companies perform poorly in the area of management capability. This finding is consistent with DSD's consultation outcomes in developing the Advanced Manufacturing Roadmap and findings from other recent reports produced by the Advanced Manufacturing Growth Centre (AMGC)<sup>1</sup>, CSIRO<sup>2</sup> and The Committee for Economic Development of Australia (CEDA)<sup>3</sup>.
- The CEDA report identifies the requirement for a renewed emphasis on management and workplace innovation as the key to a competitive, knowledge-based economy and it specifically includes capability building in management.
- CSIRO's report includes management leadership as a comparative disadvantage stating that since a large portion of Australia's manufacturing businesses have 'family-owned' roots, those in leadership positions are less likely to have had sufficient external experience to learn novel or more sophisticated approaches to business planning and staff management.
- The role of management training and education in manufacturing businesses could be further investigated by Jobs Queensland, which was established by the Queensland Government to provide strategic advice to the government on future skills requirements, workforce planning and development issues and prioritise investment in vocational education and training in Queensland.
- The roadmap recognises the need for improved management skills to increase the international competitiveness of businesses. To date, the roadmap has funded:
  - Business Model Innovation Workshops, conducted by Professor Goran Roos, for manufacturers with the objectives of enabling participants to re-think their business model and examine ways to create new revenue streams; exploring business models that integrate services to complement manufacturing capability; and examining revenue diversification strategies and turn these new ideas into action.
  - A Design in Manufacturing Seminar series to raise businesses' awareness of the importance of design in manufacturing, showcase the benefits of incorporating design principles and practices in manufacturing production and processes and provides sources of advice and information that will strengthen businesses' design capability.
- Further initiatives are under development.

## 2. Innovation and commercialisation

*The Commission is seeking further information on innovation.*

*Are there state-based impediments to businesses and universities collaborating to commercialise R&D that could be reformed or removed? Do current Queensland and Australian government policies effectively target barriers?*

*Are there specific ways that the government can facilitate networks, hubs and clustering? Are there any state-based impediments to businesses forming effective networks and clustering?*

*Are there any other state-based barriers to innovation?*

## Answer

- The Advanced Manufacturing Growth Centre<sup>4</sup> has identified a number of actions for

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<sup>1</sup> Advanced Manufacturing Growth Centre (AMGC), Sector Competitiveness Plan 2017

<sup>2</sup> CSIRO Futures, Advanced Manufacturing, November 2016

<sup>3</sup> The Committee for Economic Development of Australia (CEDA), Australia's future workforce?' June 2015 report

<sup>4</sup> Advanced Manufacturing Growth Centre (AMGC), Sector Competitiveness Plan 2017

government that would support manufacturing into the future. Specifically the report suggests action in the following areas:

- Improve government support for business-led R&D and encourage industry–research collaboration, and align this support to the different risk profiles and timeframes. For example there may need to be a stronger emphasis on collaboration as a requirement for government support for R&D.
- Use smarter procurement and funding programs to drive advancement—focussed on areas where Australia has comparative advantage.
- Rethink how progress in the manufacturing sector is measured.
- Government procurement areas could investigate increased use of outcomes-based procurement strategies as a way of supporting innovation within supply chains.
- A potential barrier to the development of effective networks and clusters is the diversity of manufacturing in Queensland. An important consideration prior to government facilitation of networks will be an assessment as to whether there is enough critical mass in particular sectors to make clusters work.
- Additionally, the small size (headcount) of most Queensland manufacturers could reduce the capacity of those businesses to participate in networks/clusters. This may represent an opportunity for government to play a role in investigating how to best organise, design, facilitate and support networks/clusters.
- Discussions are underway with the AMGC in regard to a collaborative approach to establishing an AMGC hub in Queensland.

### **3. Regulation**

*The Commission is seeking stakeholders' evidence and views to identify regulations that could be reformed and which subsectors could be given priority in undertaking a stocktake of the regulations, having regard to the greatest potential opportunity for gains.*

*Which regulations are unnecessarily burdensome, complex, redundant or of questionable benefit? Where will reform provide the greatest benefits (for manufacturers or the broader community)?*

#### **Answer**

- The Government is already undertaking a reform program through the Red Tape Reduction Advisory Council (RTRAC)/Better Regulation Taskforce to improve the regulatory environment for all businesses including manufacturers. The 2016 RTRAC report<sup>5</sup> included specific recommendations for the manufacturing (light metals) industry sector under the themes of reducing regulatory creep, improving regulator engagement and improving regulatory processes.
- The Government's response to the RTRAC report and an action plan was published in October 2016.

### **4. Structural adjustment**

*The Commission is seeking further views on potential measures for displaced older, low-skilled manufacturing workers.*

*Are there alternative options to retraining programs for older, low-skilled manufacturing workers? Are there examples where such programs have been successful? For some groups of workers, is there a case to shift beyond retraining and redeployment objectives to transition to other forms of work or retirement?*

#### **Answer**

- See comments on draft recommendation 10 above.

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<sup>5</sup> Red Tape Reduction Advisory Council Report to the Queensland Government, July 2016