



Inquiry into Identifying World's Best Practice by Governments to Effectively Stimulate Employment Opportunities in Queensland

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About Townsville Enterprise

Townsville Enterprise is the peak economic development and destination marketing organisation in northern Queensland. Operating for over 18 years, the organisation represents the Townsville, Burdekin, Charters Towers and Hinchinbrook regional councils with a population over 214,000.

Dedicated to the sustainable development of northern Queensland, the role of Townsville Enterprise is to identify and work towards fostering and facilitating sustainable economic development of our region.

Townsville Enterprise is an apolitical, non profit organisation with over 400 private and public sector supporters. Our principle sponsor is Townsville City Council, and major sponsors include Port of Townsville, Townville Airport and Ergon Energy.

Introduction

North Queensland has one of the most diverse economies in Australia, with large Government and Construction sectors. Sectors dominated by mineral commodities, primarily the Mining and Manufacturing sectors (with Manufacturing dominated by minerals processing), make up around 20% of our Value Added production (Figure 1).

Leading up to and including the 2007-08 financial year, the region has seen very strong economic growth, averaging almost 10% per annum. However, like the rest of world, we expect our region's growth to be minimal, if not negative in the 2008-09 year.

Figure 1: Breakup of Value Added per Industry Sector 2007-08.
The Total Value Added Estimate for Northern Statistical Division was \$9,434.287 million



Source: Compelling Economics

The North Queensland region has a significant mining services sector. The drop in commodity prices caused by the Global Financial Crisis has hit our economy hard, resulting in job losses around the region. Among these were 350 jobs shed from BHP's Yabulu Nickel Refinery, following the closure of the Ravensthorpe nickel processing operations.

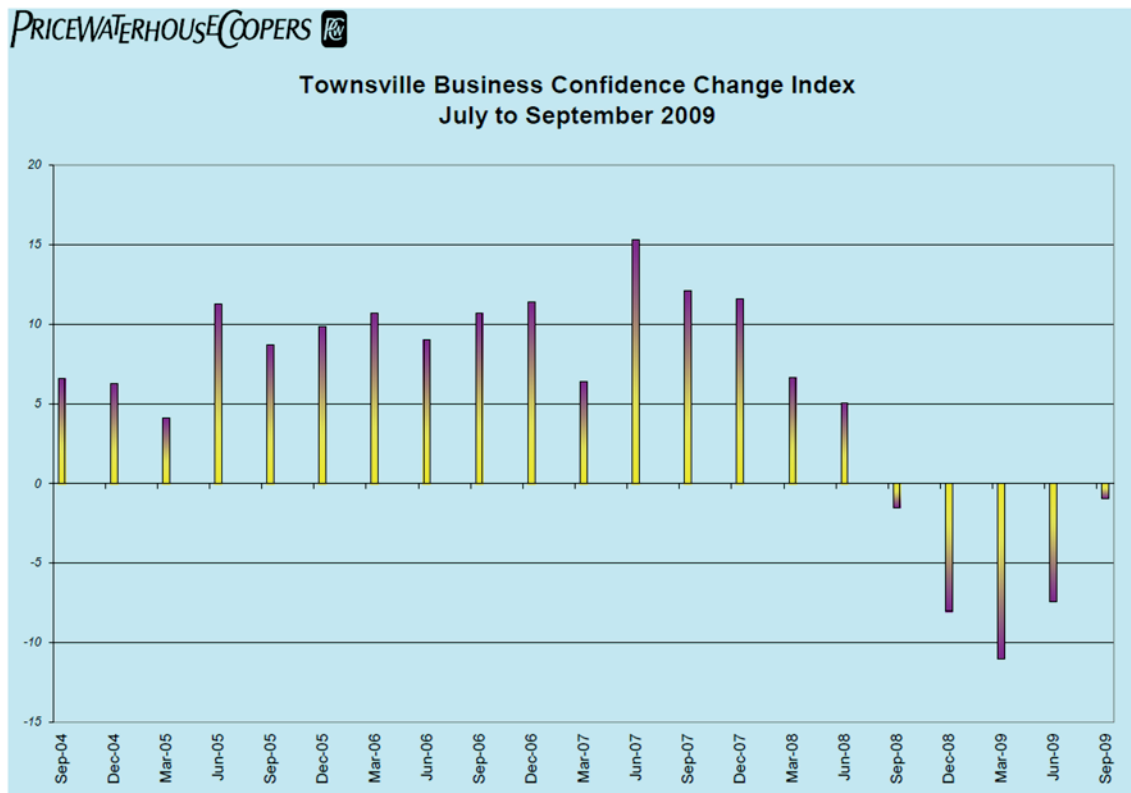
On top of this we have seen a general drop in confidence across the construction sector linked to weak demand for residential and commercial property (Figure 2) and a dramatic slump in business confidence, although this is starting to improve (Figure 3).

Figure 2: Building Approvals Issued in Townsville City Council Area, June 2009

	2009		2008		2007		2006					
Dwellings												
June Total	132	\$34,342,725.34	133	\$36,277,324.75	113	\$27,248,285.70	129	\$29,885,274.00				
Previous 12 mth Average	86	\$23,403,848.76	149	\$39,401,587.32	132	\$30,929,120.53	119					
Units												
June Total	0	0	\$0.00	4	168	\$21,957,995.00	0	0	\$0.00	6	67	\$6,902,360.00
Previous 12 mth Average	1	24	\$4,219,049.32	3	70	\$21,727,838.25	4	51	\$9,059,090.67	5	44	\$11,391,400.63
Commercial												
June Total	26	\$12,615,278.00	29	\$16,102,052.00	20	\$10,256,446.00	27	\$48,716,877.00				
Previous 12 mth Average	27	\$19,458,690.54	27	\$21,015,641.10	25	\$26,122,032.78	25	\$11,643,677.80				
Pools & Spa												
June Total	37	\$1,014,988.61	51	\$1,378,823.00	64	\$1,636,584.00	55	\$1,468,963.00				
Previous 12 mth Average	46	\$1,233,919.63	67	\$1,751,063.29	68	\$1,705,708.75	71	\$1,594,928.88				
Other												
June Total	174	\$3,903,852.88	218	\$4,534,617.53	175	\$3,848,980.00	268	\$7,225,047.36				
Previous 12 mth Average	191	\$4,167,576.80	228	\$5,108,223.23	264	\$5,044,104.65	246	\$4,190,634.35				

Source: Townsville City Council

Figure 3: Townsville Business Confidence Index to September 2009



Source: PricewaterhouseCoopers 2009

While we are seeing signs of recovery, Townsville Enterprise believes that the stimulus provided by the Commonwealth's Building the Education Revolution is necessary provide a significant boost to the construction sector and to keep skilled workers in the region. The effectiveness of this boost at a regional level will very much depend on the ability of local firms to gain a reasonable percentage of the work on offer. This submission proposes some solutions to this issue which have been developed through Townsville Enterprise research.

However for the sectors associated with minerals processing and mining, more is required to enable cost effective and efficient operations. The two main concerns are transport and energy. This submission outlines recommendations for the Government to address these infrastructure constraints. Tapping into existing Commonwealth Government programs such as the Building Australia Fund, and renewable energy grant schemes such as the Solar Flagships program are two opportunities available to the Queensland Government to address these needs.

The third vital component of our submission is our argument for the continued funding of Regional Economic Development Organisations (REDOs) such as Townsville Enterprise through the State Government's Queensland Regional Development Initiative (QRDI). This funding runs out in March 2010 and the State's REDOs who undertake a range of activities to create and maintain jobs in their regions, rely on this funding to maintain their capacity to deliver economic development expertise and activities in their regions. This submission will describe some of the important activities undertaken by Townsville Enterprise to create and maintain jobs in North Queensland, demonstrating the practical value of REDOs in meeting the Queensland Government's jobs targets.

This submission will make recommendations outlining how the Government can provide meaningful solutions for creating and maintaining jobs in North Queensland. To follow are our responses to the Issues for Comment 1, 6 and 12.

Issues for Comment

1. Maximising Opportunities for Employment in Existing Industries

There are two courses of action the Government can take to maximise employment opportunities in existing industries. The first is to ensure that local companies take full advantage of the projects underway and planned in the region, particularly under the Commonwealth's Stimulus Package. The second is by providing infrastructure to remove the bottlenecks to growth.

1. Implementation of Local Industry Policies to stimulate employment in the construction sector

During times of economic downturn the Australian community relies on the three levels of government to increase their spending in areas that will not only provide employment but will also provide the community with much needed infrastructure.

All three levels of government have expressed a desire to maintain employment levels and skills in regional Australia. This desire could be achieved through the Queensland Government Local Purchasing Policy. This policy however is quite broad in its definition of local industry; "Queensland and Australian small and medium sized enterprises (SMEs) in the manufacturing or service sector and New Zealand suppliers of goods and services."

The desire of State and Local Government to support local industry and employment is also tempered by their requirement to comply with legal obligations. As an example, the State Government agencies must be mindful of their obligations under the following acts & policies:

- Financial Administration and Audit Act
- Financial Management Standard
- Public Sector Ethics Act
- "10% Training Policy" for Queensland Government Building and Construction Projects
- Indigenous Employment Policy
- Capital Works Management Framework and the Maintenance Management Framework (and associated guidelines).
- Art Built-in Policy
- Communication and Information Purchasing Framework
- Queensland Government's Quality Assurance Policy
- Local Industry Policy
- State Procurement Policy (and it's associated guidelines)
- Fair Trading Act
- Various international free trade agreements

Federal and Local Governments have similar obligations in the areas of probity and accountability, value for money and open and effective competition.

In interviews with Townsville Enterprise, Government purchasing officers reflected their concern at delivering on local industry priorities without falling foul of their legal obligations as defined under the various Acts, policies and agreements.

RECOMMENDATION

Whilst there are approximately 30 purchasing guidelines to assist the agencies there is a requirement to provide more practical assistance and information on how to deliver these government priorities and meet their legal obligations at the same time. The Queensland Government should investigate ways to reduce the bureaucracy associated with the decision making process including streamlining the approvals process and increasing the level of delegation for regional centres.

Queensland Government should amend the State Procurement Policy to provide a definition of 'Local' that is consistent with the intent of the document. While the Fair Trade Act and various Free Trade Agreements provide equal opportunity for all contractors and suppliers in Australia and New Zealand to tender for State and Local Government work, Townsville Enterprise believes those contractors and suppliers should provide equivalent benefits to the 'local' community, particularly in relation to employment, as would a 'local' contractor or supplier.

Two issues concern Local Governments when they are developing their procurement strategies. They centre around the Local Government Act Part 3 section 481.(1) Principals governing the making of contracts.

The first is Principal (b) "Value for money". The Local Government Act provides no definition of "value for money" nor advice on how to achieve this principal. Some councils refer to the State Procurement Policy for guidance on this principal which provides some advice on assessing value for money specifying agencies must consider;

- the contribution to advancing Government Priorities,
- non cost factors such as fitness for purpose, quality, service and support, and sustainability considerations, and
- cost related factors including whole of life costs and transactions costs associated with acquisition, use, holding, maintenance and disposal.

The Act does not provide detailed advice or worked examples on how to implement these suggestions. This level of detail could be covered in the training programs offered by the Queensland Government Chief Procurement Office.

It is clear that State and Local purchasing guidelines require that tenders should not be assessed on price alone. The inclusion of non-cost factors as a consideration in tender selection opens the door to Local Government to incorporate 'sustainability' criteria such as;

- creation of local employment opportunities to maintain skilled workers in the region,
- increasing the skills of the local labour force, and
- overall contribution to the local economy through direct, indirect and consumption impacts.

RECOMMENDATION

Local Government develop more defined purchasing guidelines on identifying, assessing and weighting cost and non-cost related factors to provide both value for money for ratepayers and maximise local economic impact. Training and guidance should be provided to Local Government purchasing officers to enable them to effectively use these guidelines.

The Queensland Government should provide detailed guidelines with worked examples for Local Government on how they encourage the development of competitive local business and industry without mitigating their obligations to the other principals governing the making of contracts.

The second issue related to Local Government purchasing policy is interpretation and implementation of Principal (c) "Encouragement of the development of competitive local business and industry".

Townsville Enterprise's research has found a variety of interpretations of the term 'local supplier'. These range from no definition at all (mostly larger councils) to (mostly smaller councils) a business that is;

- (i) beneficially owned by persons who are residents or ratepayers in the council area,
- (ii) has its principal place of business within the council area, and
- (iii) otherwise has a place of business within the council area which solely or primarily employs persons who are residents or ratepayers of the council.

Councils with a definition for local supplier often provide a weighting to non local suppliers bids as a means of implementing principal (c). Other councils have not pursued the avenue of loading non local supplier bids as they perceive that it may place them in conflict with the Fair Trade Act.

There is a genuine concern within larger councils that if they were to implement principal (c) they would then come into conflict with principal (a) open and effective competition, principal (b) value for money and principal (e) ethical behavior and fair dealing. Hence principal (c) is often over looked when procurement strategies are devised.

RECOMMENDATION

Given the difficulties of applying a loading to non-local supplier's bid, other strategies to encourage the development of competitive local business and industry could include;

- workshops for local suppliers on how to successfully tender for local government work,
- providing meaningful feedback to unsuccessful local tenderers, and
- surveying sections of industry that historically have a low participation rate in applying for Local Government tenders to understand the issues causing this.

Council procurement officers would benefit from having a set of practical guidelines on how to implement, manage and measure the application and effectiveness of the measures they put in place to comply with principal (c) "encouragement of the development of competitive local business and industry".

Both the State and Local Government could develop a system to measure the proportion of spend on projects in the regional community vs actual project funds spent with regional business and industry. This will assist in measuring the benefits the community has received from the Government / Council spend.

Project Delivery

The method of project delivery impacts on the effectiveness of both State and Local Government in achieving their social aims. Depending on the type of project being undertaken there are a number of project delivery methods such as:

- Early Contractor Involvement (ECI)
- Design and Construct (D&C)
- Managing Contractor
- Build Own Operate Transfer (BOOT)
- Build Own Operate (BOO)
- Private Public Partnership (PPP)
- Traditional Contract
- Nominated subcontractors

Each of these methods has its own set of pros and cons in terms of project risk, financial risk, project control and desired outcomes. In boom times State and Local Governments found it often difficult to attract sufficient and / or quality suppliers, and moved towards D&C project delivery. In addition, Government departments may also suffer from a lack of qualified and experienced project managers to oversee projects outside of the D&C model.

To overcome this, projects have been bundled together to make the tender more attractive to larger suppliers. Whilst this approach has some benefits it can come at the cost of some of the stated social aims of both State and Local Government, such as the development of competitive local business and industry. Townsville Enterprise believes the economic benefits to the community of engaging local contractors and suppliers should be recognised when deciding on the method of project delivery.

RECOMMENDATION

During periods of economic downturn it may be prudent to consider unbundling projects. This may provide local contractors and suppliers the opportunity to tender on projects that would otherwise have been outside their capacity. Participation in these contracts provides local industry with the ability to retain skilled staff and perhaps to train other staff.

The Queensland Government should place greater emphasis on using project delivery methods that encourage 'local' contractors and suppliers to tender for projects in their region. Government agencies and local councils should review the size of tender packages to enable regional contractors and suppliers to tender directly to the agency or council.

2. Provision of key infrastructure to remove bottlenecks to growth

Mt Isa to Townsville Rail Corridor

The annual direct and indirect contribution of economic activity dependent on freight on the Mt Isa line to the MITEZ economy was \$6.6 billion in 2006-07 (source: QR Network, Mt Isa Rail System Master Plan V1) and almost 11,000 jobs are dependant on the line's existence (source AECGroup). The condition of the line and its limited capacity to meet future demands is costing the region, the state and the country dearly. The line's closure due to the recent flooding in northern Queensland in January 2009 cost an already beleaguered industry over \$338 million in Value Added (source AECGroup) and put jobs in industries dependent on the line at risk.

The line in its current state cannot carry more than 7.5 million tonnes without substantial upgrades. The Port of Townsville estimates the tonnage carried on the line will total almost 13 million tonnes by 2011/12. This estimate is underpinned by the Legend project which aims to export 5 million tonnes of rock phosphate from its deposits in the Georgina Basin near Mt Isa through the Port of Townsville within the next 3 years. Xstrata is also assessing the feasibility of exporting magnetite from its Ernest Henry mine at a rate of 3 million tonnes a year. It is critical to understand that unless these products can be transported to customers at a reasonable cost, then these projects will not go ahead.

Townsville Enterprise's economic analysis using the REMPLAN (Compelling Economics) model estimates that construction of mining and beneficiation operations at Legend's ex-D-Tree or ex-Paradise North leases will create over 2000 jobs per annum (from direct, indirect and consumption effects). Operation of the mine and the beneficiation plant will create over 800 full time jobs. The commencement of this project is reliant on cost effective transport and access to transport capacity.

In order to carry over 7.5 million tonnes, Queensland Rail must construct a rail connection off the existing Network via the Eastern Access Transport Corridor to the Port of Townsville. The estimated cost of this project is \$180 million. In addition, another \$92 million is required to make the track suitable for 1000 metre trains – necessary to carry over 10 million tonnes of product annually. The Government has the opportunity to seek co-investment in the project from the Commonwealth by ensuring a comprehensive application is made to Infrastructure Australia to access Building Australia Funds.

RECOMMENDATION

The Queensland Government should investigate the issues delaying agreements on transport provision by QR for projects such as Legend and Xstrata's magnetite. There is uncertainty over who will pay for the infrastructure upgrades needed to carry this additional product on the rail line – with some feedback suggesting any new capacity on the line will be paid for by the customer seeking that capacity. This is unrealistic and is delaying the construction of these projects.

The Queensland Government can overcome some issues associated with who pays for upgrading the line by making a strong case to the Commonwealth for a contribution from the Building Australia Fund. The line is listed as a priority project yet little has been done by QR or the Queensland Government to put forward a detailed case for funding.

Construction should commence on this project as soon as possible so that rail capacity is available when Legend reaches full production and to coincide with the completion of the road section of the Port Access Corridor.

6 & 12. How Does Queensland (in particular regional Queensland) Ensure that Queensland Industry is Globally Competitive?

Townsville Enterprise believes there are two important areas for the Queensland Government to focus on in order to ensure Queensland and in particular regional Queensland is globally competitive.

1. Provision of infrastructure to enable economic growth – electricity price and supply

Two of the largest costs to major industry (and major employers) in regional northern Queensland are electricity and transport. In 2006 the Queensland Government's Department of Infrastructure and Planning announced the Northern Economic Triangle (NET) initiative, recognising the significant contribution of this region to the State's and the country's development. The NET Infrastructure Plan incorporates the activities of Mount Isa, Townsville and Bowen by supporting regional linkages and exploiting the competitive advantages of each centre. The NET plan recognises clearly that cost competitive energy supply and transport to export markets are the two major impediments to the development of the NET. Townsville Enterprise's own research has identified the need for investment in electricity infrastructure in northern Queensland to meet demand and reduce transmission costs.

Only new base load generation in the NET region will reduce electricity costs for both existing and new industry. Without competitive electricity prices, North and North West Queensland will struggle to maintain competitiveness for existing energy intensive industry – particularly during times when profit margins are tight as they are currently – and will have little chance of attracting new energy intensive industry. Continuous gradual increases in the load in North Queensland have not been balanced by development of energy generation, causing Marginal Loss Factors (MLFs) to increase. For example, Townsville's MLFs rose by 7% for the 2009-10 year, and they are expected to continue to rise unless additional energy generation is developed in the region.

With the current economic crisis placing incredible pressure on the profit margins of our minerals processing industries, higher than average electricity prices further threaten their viability. Extensive research by ROAM Consulting has identified that 200 to 400 MW of new base load generation is required in advance of new load to reduce transmission costs to a competitive level.

Maintaining the Capacity to Meet Growing Demand

The current upgrade of the transmission line from Rockhampton to Townsville by Powerlink has added great stability to northern Queensland's transmission system and will provide a further 300 MW of supply to the region. While the Powerlink upgrade will provide additional capacity, the region's historically strong economic and population growth are driving northern Queensland's average demand by around 60 MW annually. Demand for electricity in northern Queensland will exceed supply in 2013-2014. Decisions need to be made now so new generation can be put in place in time to meet the region's needs.

Research by ROAM Consulting has shown that northern Queensland has a wealth of opportunities for renewable energy generation. Establishing significant renewable electricity generation in northern Queensland will provide benefits not only to our region through reduced transmission costs and providing much needed supply, but to the State of Queensland and the nation as a whole. Northern Queensland can contribute significantly to meeting Australia's increased Mandatory Renewable Energy Target (MRET).

The Nation's Need for Reducing Carbon Emissions

The Federal Government MRET of 20% by 2020 calls for immediate action on renewable energy projects. The MRET combined with the introduction of the Carbon Pollution Reduction Scheme (CPRS) will ensure that renewable energy is at the forefront of future infrastructure development.

The expanded MRET provides a unique opportunity for northern Queensland. Our region is not suited to the development of coal and gas-fired electricity generation, and as such renewable resources offer our only alternative.

RECOMMENDATION

The Queensland Government should actively promote the development of energy infrastructure in northern Queensland. The previous policies of letting the private sector drive investment in electricity in the state haven't benefitted northern Queensland. The region needs strategic support from the Queensland Government in order to capitalise of its renewable energy generation potential.

One option available to the Queensland Government would be to encourage the development of robust transmission infrastructure between North Queensland and the North West Minerals Province. This would not only provide more cost competitive power to users in the Province but provide a highly valuable linkage into prime areas for solar thermal power generation.

2. *Building regional capacity to be more competitive – supporting Regional Development Organisations*

A number of Regional Economic Development Organisations (REDOs) exist throughout regional Queensland. These organisations work with federal, state and local government and private industry to foster the sustainable growth of their region. Since the economic downturn, these organisations have been firmly focussed on the need to create and retain local jobs.

Currently the State Government through the Department of Employment, Economic Development and Innovation provides funds to these organisations (who are also supported by local government and business members) through the Queensland Regional Development Initiative (QRDI). This funding is due to run out in March 2010. Queensland's REDOs rely on this funding, along with private and local government support, to carry out their activities.

An example of the type of activities undertaken by REDOs to create job opportunities is the QRDI funded supply chain analysis work undertaken by Townsville Enterprise.

Prior to the global downturn, the greatest concern for many companies' was finding skilled staff. The Townsville region was among those that experienced extremely strong economic growth and our local capabilities struggled to keep pace. During this period of time many businesses lost sight of need for developing their competitive edge.

A study by Townsville Enterprise on the supply chain needs of major contractors building the Abbot Point Coal Loading Facility Expansion near Bowen in north Queensland uncovered some common themes in their experiences with local businesses that have highlighted areas to improve in local business capabilities. These contractors shared some important recommendations for improving the ability of local businesses in the North Queensland region to win greater market share of the work they had available at Abbott Point including;

- the need to improve the quality of tender applications,
- the need to realistically price projects,
- lack of proper accreditation such as Code Compliance

- the need to promote their company's capabilities to major contractors and invest in developing relationships with these major potential clients, and
- the need to improve customer service including responding properly to requests for tenders, avoiding time delays and displaying honesty in supplying clients with full information on timeliness, delivery/supply, delays, realistic timeframes and key delivery dates.

Townsville Enterprise, recognising the improvements in local capability required to make local businesses more competitive, have undertaken a range of activities aimed to facilitate the uptake of business improvement activities by local companies. The supply chain work has also allowed Townsville Enterprise to provide information to the region's businesses on the types of work that will become available at Abbott Point when the next round of upgrades gets underway.

Townsville Enterprise also supports the Townsville Regional Engineering Cluster (TREC) to ensure there is targeted support for the engineering and manufacturing sector of our economy knocked sideways by the downturn in activity in the North West Minerals Province and the Construction sector. TREC facilitates training for local businesses in quality accreditations (such as ISO 9000 and Code Compliance), finds opportunities for local businesses by working with major contractors, assists companies to work together as consortia to win large projects and provides a networking function that encourages the exchange of information and ideas between members. Townsville Enterprise works closely with TREC to deliver outputs of our supply chain research.

Other work undertaken by Townsville Enterprise includes our Economic Recovery Taskforce. Following the success of the Jobs Security Summit held in Townsville in February 2009, Townsville Enterprise was approached by the Premier of Queensland, the Hon. Anna Bligh, to engage five local business leaders to form an Economic Recovery Task Force. The role of this committee is to:

- assist the region and the Queensland Government in maintaining the viability and sustainability of the Townsville region,
- be a conduit to Government, and
- make recommendations on regional issues.

Underpinning this committee, Townsville Enterprise is undertaking research to ensure the Townsville region maintains its current level of employment and works towards creating employment opportunities in the region. This has included examining purchasing policies to see how local contractors could be given a greater role in local projects and surveying planned and current projects in the region to understand job requirements and timelines. This work will identify peaks and troughs in workforce demand within the region over the next 2 years.

RECOMMENDATION

The Queensland Government continue to provide funding to REDOs post March 2010 to allow them to continue the good work they do in the regions to create and maintain jobs.