

4 ECONOMIC STRATEGY

FEATURES

- Queensland's economic strategy focuses on positioning the Queensland economy for a strong recovery from the global recession while simultaneously supporting jobs.
- The centrepiece of the Government's jobs agenda is continued investment in infrastructure. With a total capital program of \$18.2 billion in 2009-10, new infrastructure will be created at an average rate of more than \$350 million a week, sustaining employment for thousands of Queenslanders.
- In per capita terms, it is estimated that Queensland's General Government sector capital spending in 2009-10 will be around 60% more than the average of the other states, at \$2,083 per person.
- The Government is working to maximise and leverage the Australian Government's substantial nation-building and economic stimulus programs such as the *Nation Building and Jobs Plan*.
- As well as supporting existing businesses and traditional strengths, the Government is driving the development of the industries and jobs of tomorrow in areas such as liquefied natural gas and renewable energy.
- Queensland's productivity growth has outpaced the national average over the past decade and the Government is locking in future productivity gains with its substantial ongoing investment in skills, innovation, and economic infrastructure.

FRAMEWORK FOR SUSTAINING JOBS AND POSITIONING FOR ECONOMIC RECOVERY

In the face of the global recession, the Queensland Government's economic strategy is comprised of four key elements: jobs, infrastructure, skills and innovation, and responding to climate change. Additionally, the Government remains committed to ongoing regulatory reform. The following sections discuss the Government's economic strategy and regulatory reform agenda.

DELIVERING JOBS FOR QUEENSLAND

A concerted effort is required by governments at all levels to preserve existing jobs and to create new employment and skilling opportunities for unemployed Queenslanders. The Queensland Government plans to meet this challenge with a commitment to facilitate the creation of 100,000 new jobs by March 2012.

The Government's plan has four key planks:

- Sustaining Queensland's record building program
- Preparing for the recovery by expanding our skills base
- Supporting new industries, along with our traditional strengths
- Developing new job creation programs.

These four planks constitute a comprehensive strategy to maintain existing jobs, create new jobs, move unemployed people back into work and mitigate the growth of long-term unemployment and its associated social costs.

Major initiatives in the Government's jobs agenda include:

- The Queensland Green Army, which will provide 3,000 work placements and traineeships to unemployed Queenslanders over three years with a Government investment of \$57 million. Green Army members will work throughout Queensland to enhance our natural assets, strengthen tourism infrastructure and promote increased environmental awareness. In 2009-10, it is expected that 700 people will begin Green Work Placements while 300 people will begin Green Traineeships.
- Establishing a specialised Liquefied Natural Gas (LNG) Industry Unit within the Department of Infrastructure and Planning to provide a single point of focus for the Government's support and encouragement for the emerging LNG industry in Gladstone, which will be based on Queensland's extensive coal seam gas reserves. An industry viability study commissioned by the Government estimates that an LNG industry has the potential to create more than 10,000 construction jobs and 3,500 direct operational jobs.
- Skilling Queenslanders for Work – a proven existing program for helping disadvantaged Queenslanders into work. The Queensland Government will invest \$320.4 million over the next three years to assist an estimated 63,000 people to gain new skills and achieve sustained employment.

Additionally, the Queensland Government is partnering with the Australian Government in the delivery of a raft of federal stimulus and investment initiatives, the largest of which is the *Nation Building and Jobs Plan* (Box 4.1).

Box 4.1
The Australian Government's *Nation Building and Jobs Plan*

The Queensland Government is vigorously pursuing its responsibilities under the National Partnership Agreement on the *Nation Building and Jobs Plan*, which the Australian Government expects will boost the national economy by ½% in 2008-09 and ¾ to 1% in 2009-10.

Under this Agreement, which came into force in February 2009, the Queensland Government is responsible for managing the delivery of Australian Government-funded economic stimulus programs in Queensland, and for the recurrent costs of new infrastructure funded under the Agreement. Additionally, the Queensland Government is maintaining its own spending effort in the relevant areas, ensuring that the full impact of the new funding flows through to the Queensland economy.

The main elements of the *Nation Building and Jobs Plan* are:

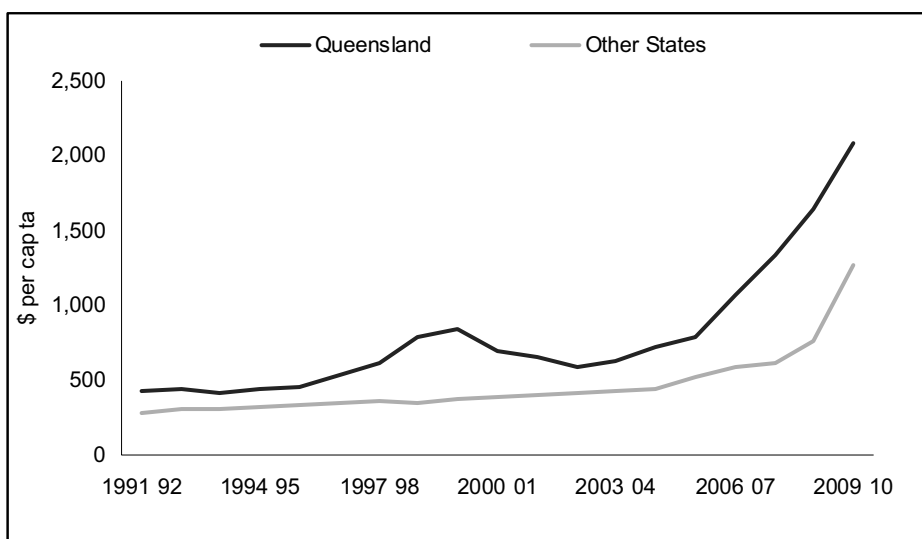
- the Social Housing Initiative, under which Queensland will receive almost \$1.3 billion for the construction of around 4,000 new dwellings between 2009 and 2012, and for repairs and maintenance of existing social housing
- the Primary Schools for the 21st Century (P21) initiative which is funding up to \$3 million per school over 2008-09 to 2010-11 for major primary education infrastructure. Round One has delivered \$650 million to 293 Queensland schools, while Round Two will deliver a further \$1.25 billion to 702 schools
- the National School Pride initiative, which is funding up to \$200,000 per school over 2008-09 and 2009-10 for minor infrastructure and refurbishment projects. Round One has delivered funding of \$195 million to 3,096 projects in schools across Queensland, while Round Two will deliver a further \$42 million across 362 schools
- the Science and Language Centres for the 21st Century initiative, under which secondary schools will compete for around \$1 billion nationally to fund the construction or refurbishment of science laboratories and language learning centres, to be completed in 2009-10
- the Black Spots, Boom Gates, Repairing Regional Roads and Community Infrastructure program under which Queensland will share in \$890 million nationally to boost capital works in these important areas.

INVESTING IN INFRASTRUCTURE

The Queensland Government is committed to maintaining a substantial infrastructure investment program. This is the centrepiece of the Government's jobs agenda and it also ensures that the Queensland economy is ready to recover strongly when world economic growth resumes.

For the General Government sector, capital spending in 2009-10 is estimated to be \$9.27 billion, an increase of 29.9% on the 2008-09 figure, with the increase largely resulting from Queensland's partnership with the Australian Government.

Chart 4.1
General Government purchases of non-financial assets, 1991-92 to 2009-10



Source: Qld, Vic, SA, WA, Tas – State Budgets, NSW – Half Yearly Review, Australian Government Budget and Queensland Treasury estimates, population – ABS 3101.0 and Australian Government Budget Paper 3

In per capita terms, it is estimated that the Queensland Government's capital spending in the General Government sector will be around 60% above the average of the other states, at \$2,083 per person (Chart 4.1). Among the states, Queensland has the highest capital expenditure per person in 2009-10, 20.3% above next-highest Western Australia, which is also experiencing rapid growth in capital spending.

The State's total capital outlays in 2009-10, including outlays by the Public Non-financial Corporations sector and capital grants, are expected to be \$18.2 billion.

Major Queensland Government infrastructure initiatives for 2009-10 include:

- upgrading the Queensland Rail coal network – \$862 million in 2009-10 – to support the haulage of coal in central Queensland, including extensive track works and upgrading of locomotives and wagons
- continuation of works on the Abbot Point Coal Terminal X25 Expansion (\$17 million in 2009-10) and X50 Expansion (\$287.9 million in 2009-10)
- the SEQ Public Private Partnership Schools project, a \$1.1 billion contract to build seven new schools in the rapidly-growing Sunshine Coast, Western Corridor, Gold Coast and Redland regions – \$80.1 million is allocated in 2009-10 to commence construction of two schools at Thornlands and Peregian
- continuing the Gateway Upgrade Project with a further \$259.2 million in 2009-10 (\$1.883 billion overall) – the Project is duplicating the Gateway Bridge, refurbishing the existing bridge, and upgrading the Gateway Motorway, with improvements to be introduced progressively to 2012
- continuing construction of the \$9 billion SEQ Water Grid, including \$120 million in 2009-10 for the Hinze Dam Stage 3 Project, expected to be completed in December 2010, which will increase the capacity, safety and flood mitigation ability of the Dam
- planning and development of three new tertiary hospitals – the Gold Coast University Hospital, the Sunshine Coast University Hospital, and the Queensland Children’s Hospital – will continue, with \$268.4 million allocated in 2009-10 (\$4.616 billion overall).

Further, the Australian Government’s 2009-10 Budget is providing significant funding from the *Nation Building Program* (formerly Auslink) and the *Nation Building for the Future Program* for new road and rail infrastructure in Queensland, including:

- the Bruce Highway Cooroy to Curra (Section B) Duplication (\$488 million, and a further \$125 million from the Queensland Government), which will convert this section of the Highway to four lanes, is expected to start in 2009 and is scheduled for completion in 2012
- the Gold Coast Rapid Transit System project (\$365 million, and a further \$463.7 million from the Queensland Government and \$120.0 million from the Gold Coast City Council), which will provide light rail transport on the Gold Coast, is expected to commence its main construction phase in 2011, to be completed by 2013

- new funds for upgrading the Ipswich Motorway: \$484 million in 2008-09 and \$400 million in 2013-14 towards construction works on the Dinmore-Goodna and Wacol-Darra sections and planning for the Darra-Rocklea section. This is in addition to previously-committed *Nation Building* funding for the Ipswich Motorway, including \$650 million in 2009-10
- the Brisbane Inner City Rail Feasibility Study: \$20 million to undertake a feasibility study to determine potential route alignment, construction timetables and preferred funding model.

Further details of the State's capital program are provided in Budget Paper 3 – Capital Statement.

Additionally, as discussed in Chapter 5, the Government has decided to open up some parts of its asset base to the private sector, under its *Renewing Queensland Plan*. This will allow better targeting of scarce resources to core Government investment priorities such as roads, schools, and hospitals, while at the same time facilitating significant private sector capacity-building and the commercial development of the assets concerned.

INVESTING IN SKILLS AND INNOVATION FOR THE FUTURE

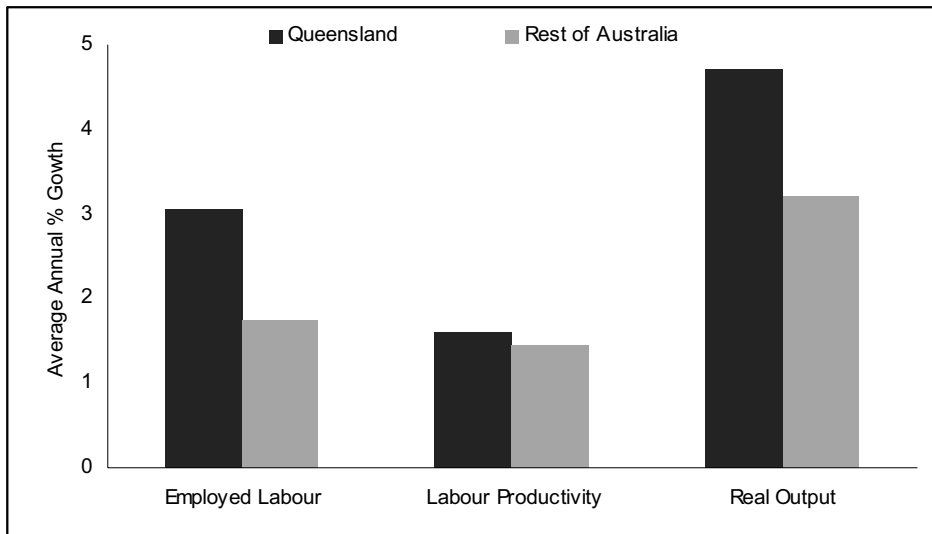
Whilst the global recession is creating substantial short-term fiscal and economic issues, the Queensland Government remains committed to the long view in the ongoing task of upskilling the Queensland workforce. It is through increasing the skill base that Queensland will secure the productivity and participation outcomes necessary for economic recovery and sustained prosperity.

Productivity and innovation

In the long run, the wellbeing of Queenslanders is critically dependent on productivity growth. Productivity growth means creating more value from a given quantity of inputs. The productivity dividend can accrue as higher material living standards, increases in international competitiveness, improvements in the environmental sustainability of industry, and increases in the capacity of government and society to generate better social outcomes.

The most common measure of productivity is *labour* productivity, or real output per hour worked. Queensland's labour productivity growth over the decade to 2007-08 (1.6% per annum) was superior to that of the rest of Australia (1.4% per annum), indicating that the State's robust employment growth over that period was more than matched by strong capital investment and improvements in technical efficiency (Chart 4.2).

Chart 4.2
Employed labour, labour productivity and real output, 1997-98 to 2007-08



Source: Queensland State Accounts, ABS 6202.0 and Queensland Treasury estimates.

In the near term, labour productivity growth will gain in importance due to the negative impact of the global recession on labour market outcomes in 2008-09 and 2009-10.

The generation of productivity improvements relies on the successful deployment of new knowledge by skilled people, or *innovation*. The Queensland Government has consistently championed innovation via its Smart State Strategy. Now in its third stage, the Smart State Strategy seeks to capitalise on the State's earlier Smart State investments by attracting, retaining, and developing more world-class researchers, clinicians and other experts in key priority areas such as health and medical research.

Further, the Government remains committed to driving innovation by supporting the development of new knowledge-intensive industries and by encouraging an innovative culture in Queensland's traditional industries. In *Toward Q2: Tomorrow's Queensland*, the Government has set a target for 2020 of increasing by 50% the proportion of Queensland businesses that undertake research and development or innovation.

Key Government initiatives in 2009-10 that are moving the State towards this goal include:

- implementing the first stage of the Queensland Design Integration Program to increase the sustainability and competitiveness of Queensland businesses through the use of design
- delivering key biotechnology initiatives including the Biopharmaceuticals Australia scale-up manufacturing facility, the Biotech Commercialisation Pipeline, and the Queensland Clinical Trials Network

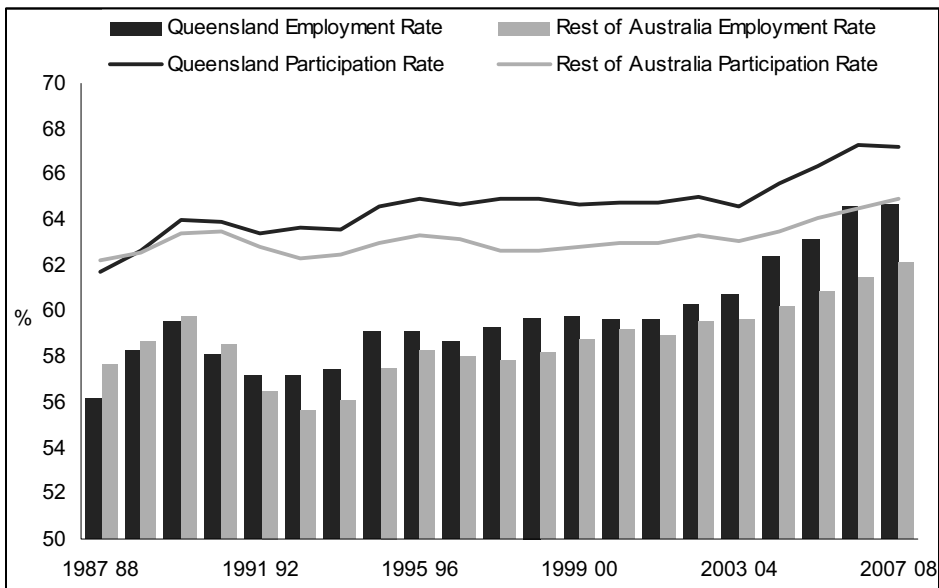
- delivering the HEAT initiative, which is promoting and developing the export potential of Queensland’s architectural services sector
- implementing the \$20 million Q-Tropics Strategy to develop, commercialise and export Queensland’s tropical products and expertise.

Labour force participation

For over a decade, Queensland’s participation rate and employment rate have been higher than those for the rest of Australia (Chart 4.3). In 2006-07 and 2007-08, Queensland’s employment rate was approximately the same as the *participation* rate in the rest of Australia – in other words, Queensland had proportionately more people in work than the rest of Australia had either in work or looking for work.

The impact of the global recession on labour force participation is highly uncertain. Data for the five months to May 2009 show the Queensland participation rate averaging an historically-high 67.7% in seasonally adjusted terms, driven mainly by increasing mature age participation. In normal circumstances, this boost to the State’s economic capacity would be regarded positively, however in the current downturn it also signifies a greater challenge for the Government in mitigating the rise in unemployment. In the medium term, it is expected that reduced job prospects will be a dampening influence on participation.

Chart 4.3
Labour force participation rate¹ and employment rate², 1987-88 to 2007-08



Notes:

1. Labour force as a percentage of civilian population aged 15 and over.

2. Employment as a percentage of civilian population aged 15 and over.

Source: ABS 6202.0, Queensland Treasury estimates

Existing skills programs such as the Queensland Skills Plan and Skilling Queenslanders for Work have ensured that Queensland is already on the front foot. The Government is now substantially augmenting its skills agenda with a raft of new initiatives in training and schooling, and by leveraging Australian Government assistance in these areas.

These new initiatives include:

- the National Partnership Agreement on Productivity Places Program, which will provide more than 148,000 additional training places, with around 102,000 aimed at up-skilling those who are in the labour force and around 46,000 for job seekers, including new entrants to the labour market
- the \$15 million Payroll Tax Apprentice and Trainee Incentive – in addition to the existing payroll tax exemption provided for apprentice and trainee wages, Queensland businesses will also receive a 25% rebate on payroll tax for on the wages of each apprentice and trainee employed. This rebate will be offset against the tax payable on the wages of other employees. As well as directly supporting jobs, the Incentive will assist businesses to continue investing in their future workforce, in readiness for the recovery. At the same time, the Government is committed to maintaining the number of apprentices and trainees employed in the public sector
- the Masters Review of primary schooling, which reported on 1 May 2009. The Government will respond to the Review's final report following a process of consultation and consideration of community submissions on the report
- a range of additional COAG National Partnership agreements where the Queensland Government will work with the Australian Government in relation to quality teaching, low socio-economic status schools, literacy and numeracy and early childhood education.

RESPONDING TO CLIMATE CHANGE

Scientific modelling shows that Queensland is particularly vulnerable to the physical impacts of climate change, particularly in the sensitive wet tropics and in the highly populated South East of the State.

The Queensland Government has recently completed a public review of ClimateSmart 2050, incorporating major changes in climate change science and policy commitments at a national and international level. The revised Climate Change Strategy, which will be released later this year, will include a range of new initiatives consistent with COAG principles for complementary measures. These include support for disaster management initiatives totalling \$15.6 million over five years; \$15 million for the ClimateSmart Business Service to be delivered over four years; extending the Rural Water Use Efficiency initiative with \$4.5 million over four years; and \$8 million over four years for the Energy Efficiency Retrofit program. The revised Queensland Climate Change Strategy will ensure Queensland remains at the forefront of the climate change response.

In 2009-10, funding will also continue for the ClimateSmart Home Service to improve household energy efficiency, along with \$3 million over two years for the Household Carbon Reduction Program.

In *Toward Q2: Tomorrow's Queensland*, the Government has set a target of cutting Queensland's carbon footprint by a third by 2020. The main contributors to achieving this goal will be the Australian Government's Carbon Pollution Reduction Scheme (CPRS), along with a set of substantial Queensland Government measures to facilitate and accelerate emissions abatement.

Carbon Pollution Reduction Scheme

The Queensland Government strongly supports most elements of the Carbon Pollution Reduction Scheme (CPRS), as a key platform to reduce Australia's carbon emissions in the longer term.

Australian Treasury modelling indicates that for Australia overall, economic costs associated with implementation of the CPRS are likely to be modest but that Queensland faces disproportionate costs because of the State's heavy reliance on coal-fired electricity, emissions-intensive industries including mining and refining, agriculture and manufacturing, and the dispersion of our population, which creates a relatively high reliance on transport. Modelling undertaken for all states and territories also shows that Queensland's regions will be among the more heavily impacted areas compared with a business-as-usual scenario.

The Government broadly supports the reviewed design of the CPRS announced by the Australian Government in May 2009, including delaying implementation until 2011, linking emissions targets to international action and increasing assistance to energy- and emissions-intensive trade-exposed (EITE) industries to reflect the more immediate impacts of the global recession.

The Government also strongly supports the Australian Government's intention to provide direct cash assistance to low and middle income households to meet the higher cost of living resulting from the CPRS.

The current formula for the Electricity Sector Adjustment Scheme indicates that Queensland black coal electricity generators will receive only \$100 million in Australian Government assistance out of a total \$3.5 billion. This compares with \$2.45 billion of assistance likely to be provided to Victoria's brown coal generators, which are considerably more carbon emissions-intensive than Queensland's black coal generators. The Government is opposed to this disproportionate outcome and believes that it sends a perverse message about the environmental outcomes the CPRS is designed to achieve.

Clean energy

The Queensland Government is driving the uptake of energy efficiency measures and the development and deployment of renewable energy technology throughout Queensland. The increased use of renewable energy in Queensland is an important contribution to achieving the expanded Renewable Energy Target of 20% of Australia's electricity capacity from renewable sources by 2020.

Key initiatives include the following:

- the Queensland Solar Hot Water Program, beginning in 2009-10, will provide for up to 200,000 affordable solar hot water or heat pump systems to be installed over the next three years. The Program will offer fully installed, greenhouse-efficient hot water systems for \$100 to eligible Queensland pensioners and low income earners, and \$500 to all eligible Queensland homeowners. This Program will help Queenslanders save money and reduce greenhouse gas emissions
- the Government is continuing the investment of \$15 million over five years (commenced in 2008-09) in the Geothermal Centre of Excellence, in partnership with the University of Queensland. The centre will be the biggest of its type in Australia and, through research and development, will make Queensland and Australia leading technology providers in the growing geothermal energy sector
- Australia's only operating geothermal power station in Birdsville, western Queensland, provides approximately one quarter of the town's energy supply, reducing diesel consumption by about 160,000 litres per year, and reducing greenhouse gas emissions by 430 tonnes. Through the Queensland Renewable Energy Fund, the Government will provide \$4.3 million to Ergon Energy for a new geothermal power station (total cost \$9 million) to replace the existing plant which is reaching the end of its design life
- the Queensland Government is working to secure cutting edge renewable energy solutions for Queensland and has committed \$7 million towards the development of a 10MW solar thermal power station at Cloncurry. The project will trial new technology that stores renewable energy. Cloncurry is set to become the first town in Queensland to produce solar thermal power capable of supplying all of the town's electricity needs, 24 hours a day. This project will investigate whether this technology can be replicated in other rural and remote areas of Queensland

- a \$900 million joint investment with the State's black coal mining industry for the accelerated development and deployment of low-emissions coal technologies in Queensland. This commitment comprises the Queensland Government's Clean Coal Fund of \$300 million and the voluntary contributions to be made by the Queensland black coal mining industry of \$600 million over ten years. Projects currently being investigated include the ZeroGen project (an Integrated Gasification and Combined Cycle plant with Carbon Capture and Storage), the Callide Oxyfuel project (utilising Oxy-firing Technology) and the Tarong Energy PCC project (demonstrating post combustion using CO₂ absorption solutions)
- the Government will provide funding totalling \$47.7 million to ENERGEX and Ergon Energy to initiate a range of demand management and energy conservation measures in Queensland. Implementing these measures is expected to significantly reduce both greenhouse gas emissions and peak demand for electricity
- the Government will continue to support the development of renewable and low emissions technologies, and through the Queensland Renewable Energy Fund will fund key renewable energy initiatives including:
 - \$9 million to Mackay Sugar Co-operative Association Ltd for the Mackay Sugar Cogeneration Project. This 36MW cogeneration project will replace the old, inefficient plant and streamline storage practices at all of its mills;
 - \$7.5 million to the Commonwealth Scientific and Industrial Research Organisation for SolarGas One, the world's first multi-tower array system using SolarGas technology (subject to a significant financial commitment from an industry partner); and
 - \$5 million for the Coastal Geothermal Energy Initiative to identify possible sources of hot rocks for geothermal energy close to existing electricity transmission lines.
- the Government is also providing \$5 million for Ergon Energy to trial an energy conservation program in Queensland's isolated communities. This program will investigate ways to reduce the cost of supplying energy to these communities as well as reduce greenhouse gas emissions and electricity bills.

THE SMART REGULATION REFORM AGENDA

Increasing the momentum on regulatory reform is an important focus of the Queensland Government. This is now occurring on two main fronts: reducing barriers to trade and commerce between Queensland and the rest of Australia; and reducing the regulatory burden on the Queensland business sector.

In December 2008, the Queensland Government, along with other Australian jurisdictions, committed to a National Partnership Agreement to Deliver a Seamless National Economy. Under this agreement, Queensland is implementing regulatory and competition reforms in 36 key areas to improve the efficiency and inter-jurisdictional harmonisation of the regulatory environment. Harmonisation of these regulations across Australian jurisdictions will contribute to reducing costs incurred by business in complying with differing and inconsistent regulation across jurisdictions.

Key initiatives in the Seamless National Economy agenda are:

- establishing uniform national occupational health and safety laws – a new national entity, Safe Work Australia, has been established by the Australian Government and will now commence developing model legislation, with implementation scheduled for late 2011
- establishing a national licensing system to allow specified tradespeople to work seamlessly across state borders – an intergovernmental agreement was signed at COAG on 30 April 2009. Development of legislation will proceed through 2009-10, working towards full implementation on 1 July 2012
- implementing a national Standard Business Reporting framework to eliminate duplication in business-to-government reporting – a single online facility for reporting to state and federal agencies will commence on 1 July 2010
- developing a new Australian Consumer Law to provide consistent consumer protection and enforcement of breaches, and to provide business with a single national law with which to comply, thereby reducing the compliance burden
- delivering a new national construction code, which will set nationally consistent standards for building and plumbing collectively.

In addition to this national reform agenda, the Government is implementing an innovative five-point action plan under the Queensland Smart Regulation Reform Agenda. A key action under the reform agenda is to reduce the stock of regulation through a phased program of reviews by agencies of their existing regulation. Other actions include initiatives focussed at improving the quality of new regulation and improving the business government interface.

These initiatives aim to reduce unnecessary regulatory compliance burdens and improve the effectiveness and efficiency of regulations to deliver productivity benefits and real measurable savings to Queensland business, community and government.

As part of this overall regulatory improvement agenda, the Government has committed to an initial target of reducing the regulatory compliance burden to business and the administrative burden to government by \$150 million each year by the end of 2012-13.