



Treasurer  
Minister for Trade and Investment

Our Ref: 02881-2017

15 AUG 2017

Mr Paul Lindwall  
Commissioner  
Productivity Commission  
paul.lindwall@pc.gov.au

Dear Commissioner *PAUL*

**Queensland Government submission to Inquiry into Transitioning Regional Economies**

The Queensland Government appreciates the opportunity to make a submission in response to the Initial Report released as part of the Productivity Commission's Inquiry into Transitioning Regional Economies.

As outlined in the Queensland Government's previous submission to the Inquiry, the Palaszczuk Government is committed to improving the viability, sustainability and resilience of regional Queensland, including those areas in transition.

In line with this commitment, the 2017-18 Queensland State Budget has a strong focus on driving economic activity and employment in regional Queensland. In addition, the Government is committed to assisting regional areas affected by Severe Tropical Cyclone Debbie, spending more than \$1 billion to restore essential public infrastructure and assets, before reimbursements from the Australian Government, through the jointly funded Natural Disaster Relief and Recovery Arrangements.

The Queensland Government is supportive of the Commission's Inquiry and considers the Initial Report a valuable contribution to the public discussion of regional development and transition. It also recognises the substantial work undertaken in preparing the Initial Report and the Technical Report detailing the specifics on the methodology, including key issues and limitations for policy consideration.

The Queensland Government's submission in response to the Initial Report and Technical Report is enclosed for your consideration.

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Importantly, the submission highlights that key elements of the PC's policy framework for facilitation of regional transition and development align with key principles of the Queensland Government's Economic Plan, including its strong focus on supporting and fostering growth and jobs in regional Queensland.

However, the Queensland Government considers there are significant limitations to the interpretation and use of the proposed Index of Adaptive Capacity to inform policy development. In particular, the Final Report should discuss further the implications of key factors not reflected in the proposed Index, such as education, human services, demographic characteristics of a region, climate change, and infrastructure (in particular transport infrastructure).

The Queensland Government's submission also provides a range of case studies for potential inclusion in the Final Report. These case studies highlight key Queensland Government policies and programs assisting regions in transition and facilitating regional development, growth and jobs.

The Palaszczuk Government urges the Commission's Inquiry to continue to focus on developing a robust framework which will assist policymakers to identify regions facing challenges and inform development of appropriate responses to facilitate transition. The Queensland Government looks forward to considering the Commission's Final report.

If you require further information, your officers can contact Mr Patrick Wildie, Director, Economic Strategy

Yours sincerely

**HON. CURTIS PITT MP**

Treasurer

Minister for Trade and Investment

Encl.

Cc: Mr John Salerian, Assistant Commissioner, Productivity Commission

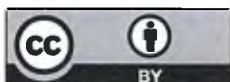
# **Queensland Government Submission**

**Response to Productivity Commission Transitioning  
Regional Economies Initial Report**

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## Key points

- The Queensland Government welcomes the Productivity Commission's Inquiry into Transitioning Regional Economies and considers the Initial Report a valuable contribution to the public discussion of regional development and transition.
- The Initial Report provides a thorough, accurate and relevant assessment of the recent trends in regional growth and its drivers.
- The Queensland Government considers the broad framework outlined in the Initial Report useful and informative in terms of informing consideration of issues related to regional economies undergoing transition. In particular, the Initial Report highlights that strategies for successful adaptation and development are those that focus on supporting people in regional communities to adjust to changing economic circumstances, while strategies work best when they are:
  - led by the local community (in partnership with all levels of government);
  - aligned with a region's relative strengths; and
  - supported by rigorous evaluation of projects and targeted investment in the capabilities of people.
- The Initial Report also highlights the importance of governments focussing on the people who reside in regions rather than the geographical areas themselves or specific industries.
- As such, the Productivity Commission's policy framework for the facilitation of regional transition and development is broadly consistent with and complementary to key elements of the Queensland Government's Economic Plan, as outlined in the 2017-18 Queensland State Budget. The key elements outlined above also align closely with the approach adopted by the Queensland Government in its significant efforts to support individuals and communities, facilitate growth and create employment opportunities in areas of regional Queensland experiencing transition or structural change, as well as areas impacted by recent natural disasters.
- The Queensland Government urges the Productivity Commission to consider the matters highlighted in its previous submission to inform the Final Report. This is a supplementary submission which focuses primarily on specific issues the Queensland Government would like to raise in response to the Initial Report or specific topics that could be further considered or discussed in the development of the Final Report.
- In particular, it is important the following issues are considered in development of the Final Report.

### **Limitations of the Index of regional adaptive capacity**

- The Index, as outlined in the technical report, has significant limitations including the reliability and variability of rankings depending on the indicators and the use of imperfect proxy variables.
- There may be potential to improve the robustness of the Index by investigating the use of SA4-level regions, and the potential to include other factors, e.g. rates of homelessness and divergent outcomes for Aboriginal and Torres Strait Islander people.
- It is noted the Initial Report states that caution is required if making policy decisions based on the rankings of regions using the estimated metric of relative adaptive capacity. Therefore, the Final Report would benefit from further consideration and discussion in relation to the scale and pervasiveness of these limitations.
- The Queensland Government considers significant care must be taken in any formal adoption of the Index or utilisation of the Index to inform policy development and its appropriateness to inform policy making, especially within the proposed framework considered in chapter five of the Initial Report.

### **Specific issues related to removing barriers to regional transition**

- The Final Report should further highlight the importance of 'no regrets' policies, particularly the importance of streamlining regulation to make it easier to do business in regional economies, including identifying potential red, green and blue tape reforms to create a globally competitive

business environment conducive to investment and growth.

- It is important to recognise that a coordinated development assessment process can augment the efficiency gains from effective planning, zoning and development processes and help facilitate the transitioning of regional economies following an economic shock.

**Additional factors important for facilitating transition and development in regions**

- Further emphasis should be placed on the role that factors such as education, human services, demographic changes, climate change and the associated international market responses, and infrastructure (including key transport infrastructure) play in the context of transitioning regional economies.

**Case studies**

- The Queensland Government has also provided several case studies for inclusion in the Final Report. The case studies provide examples of key Queensland Government policy initiatives that have assisted, and will continue to assist, regions in transition by facilitating economic activity, investment, regional development and job opportunities. They include:
  - A Strategic Blueprint for Queensland's North West Minerals Province;
  - Building Our Regions;
  - Ageing in Place Pilot Program;
  - Bundaberg State Development Area; and
  - Supporting and facilitating growth in regional Queensland.

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# 1. Introduction

The Queensland Government continues to support the Productivity Commission's Inquiry into Transitioning Regional Economies (the Inquiry) and welcomes its Initial Report (the Initial Report).

The Queensland Government recognises the substantial work undertaken in preparing the Initial Report and thanks the Productivity Commission for its valuable contribution to the public discussion of regional development and transition in response to changing economic circumstances.

The Queensland Government considers the broad framework outlined in the Initial Report is likely to be useful and informative in terms of informing consideration of issues related to regional economies undergoing transition.

Key elements of the underlying framework to assess the scope for economic and social development in regions and the factors that may inhibit adaptation to changing circumstances are a useful frame of reference. In particular, the Initial Report highlights that strategies for successful adaptation and development are those that focus on supporting people in regional communities to adjust to changing economic circumstances, and that strategies work best when they are:

- led by the local community (in partnership with all levels of government);
- aligned with a region's relative strengths; and
- supported by rigorous evaluation of projects and targeted investment in the capabilities of people.

The Initial Report also highlights the importance of governments focussing on the people who reside in regions – both urban and non-urban – rather than on the geographical areas or industry. Further, it highlights that the movement of people from one region to another can be important to their wellbeing.

As such, the Productivity Commission's policy framework for facilitation of regional transition and development is broadly consistent with and complementary to key elements of the Queensland Government's Economic Plan, as outlined in the 2017-18 Queensland State Budget. The key elements outlined above also align closely with the approach adopted by the Queensland Government in its significant efforts to support individuals and communities and facilitate growth and create employment opportunities in areas of regional Queensland where local economies are experiencing transition or structural change, as well as areas impacted by recent natural disasters including Severe Tropical Cyclones Debbie and Marcia.

Since the Queensland Government's first submission was made to the Inquiry in February 2017, the Government has continued its efforts to facilitate Queensland's transition to a more innovative, diverse and productive economy. In line with the Queensland Government's economic plan and building on the range of innovative policies and programs already implemented by the Government over the past two State Budgets, significant additional measures and expenditure announced in the recent 2017-18 State Budget will continue to drive ongoing growth and jobs across regional Queensland, including within regions undergoing economic transition.

The Queensland Government urges the Productivity Commission to consider the matters highlighted in its previous submission to inform the Final Report. This is a supplementary submission which discusses additional issues the Queensland Government would like to highlight in response to the Initial Report.

In particular, it is important that the Final Report is informed by consideration of the following:

- the significant limitations of the Index of regional adaptive capacity;
- a range of specific issues outlined in regard to removing barriers to regional transition; and
- the need for greater emphasis on factors such as education, human services, demographic changes, climate change and infrastructure (including key transport infrastructure) in the context of transitioning regional economies.

Appendix 1 to this submission provides several case studies which the Queensland Government considers appropriate to include in the Final Report as good examples of innovative policy initiatives



that have assisted, and will continue to assist, Queensland regions in transition by facilitating economic activity, investment, regional development and, most importantly, job opportunities.

Appendix 2 provides more detailed comments on the proposed Index of regional adaptive capacity.

The Queensland Government would like to thank the Productivity Commission for the opportunity to provide a further submission to the Inquiry and looks forward to release of the Final Report.

## 2. Specific comments and issues related to Initial Report

Overall, the Initial Report provides a thorough, accurate and relevant assessment of the recent trends in regional growth and its drivers. Furthermore, the Productivity Commission's policy framework for government facilitation of regional transition and development is broadly consistent with and complementary to key elements of the Queensland Government's own Economic Plan, as outlined in the 2017-18 Queensland State Budget.

However, the Queensland Government has identified several specific issues related to aspects of chapters 4 and 5 of the Initial Report where the Final Report could be enhanced. These issues, referenced to the relevant section of the Initial Report, are outlined below.

### Chapter 4: Regional adaptive capacity

The Initial report and the technical supplement provided by the Productivity Commission highlight significant limitations of the proposed Index of regional adaptive capacity. In particular, the Initial Report notes the following:

- The Index cannot be used with any precision to rank regions;
- The estimated Index values are significantly uncertain; and
- The methodology does not identify whether a region will be successful in transition following a disruption.

Given the scale and pervasiveness of these limitations, the Queensland Government considers that significant care must be taken in any formal adoption of the Index or utilisation of the Index to inform policy development.

Beyond its role as a useful illustration of the diversity of experience of regions facing economic transition, the Index may not be fit for more definitive, consequential use. In particular, as the Initial Report notes, "the metric has limited suitability as a guide for policy decisions, including the allocation of funding."

Generally speaking, the use of Principal Component Analysis seems a reasonable approach to the weighting of individual indicators. However, there appear to be significant issues with the application of this methodology to the task of ranking regions by adaptive capacity. In particular:

- Many of the proxy variables selected appear to not appropriately represent the underlying factors impacting adaptive capacity;
- There are no variables capturing important factors like housing, human services, natural-disaster resilience, environmental factors and the potential divergence of Aboriginal and Torres Strait Islander outcomes; and
- The absence of time-series data limits the ability of the Index to tease apart economic dislocation and transitional friction from long-term trends.

Further, as highlighted in the original Queensland Government submission, there are considerable limitations with the use of SA2 level areas to define regions in terms of their adaptive capacity. The Final Report would benefit from further detailed consideration by the Commission of the use of alternative and more functional definitions of economic regions, where appropriate.

More detailed technical comments on the Index are included in Appendix 2.

## Section 5.2: Removing barriers to regional transition

### Regulatory reform and 'no regrets' policies

The Queensland Government welcomes the Productivity Commission's focus on 'no-regrets' policy reforms which support regional development and adaptation by removing obstacles that prevent people and businesses from taking advantage of new economic opportunities.

The Queensland Government also recognises the importance of streamlining regulation to make it easier to do business. To this end, the Queensland Small Business Advisory Council has established the Better Regulation Taskforce to provide advice to government on red, green and blue tape areas of most concern to small business to create a strong, profitable and globally competitive business environment.

The Taskforce has the responsibility for:

- analysing regulatory issues which inhibit small business growth, impose a significant regulatory burden on small business, or create barriers to business entry in Queensland, with regard to all industry sectors and in comparison with other Australian jurisdictions;
- providing advice and recommendations to address unnecessary regulation and red tape impacting on small business; and
- identifying new initiatives, reform projects or activities which could assist in streamlining government processes impacting on small business growth.

The work undertaken by the Taskforce is an important input in the Queensland Government's holistic approach to easing the regulatory burden on businesses.

### Planning, zoning and development processes

The Queensland Government notes the Productivity Commission's observation that complex and excessively prescriptive planning, zoning and development processes can limit the adaptive capacity of regions facing economic transition and hinder economic growth more generally.

Ensuring the appropriate balance between the social, environmental and economic aims of a local planning scheme is essential for the prosperity of a region. However, drivers impacting the prosperity of a region (including competition between land uses, inconsistent application of policy and future infrastructure needs) are not limited to local government boundaries and, as such, local planning schemes are inherently limited in their ability to achieve an appropriate balance at the regional scale.

In Queensland, the regional planning process under the Planning Act 2016 provides an opportunity for local governments, industry stakeholders and the community to come together to determine an appropriate balance at the regional scale, thereby providing a context for short to medium-term economic decisions through a broader framework to shape regional development. This regional framework is then furthered through local planning schemes and can also be complemented by whole-of-government coordinated assessment processes for major projects.

Importantly, a 2013 Productivity Commission Research Report investigating major project assessment processes in Australia identified that the most efficient approach was having a lead agency that coordinates and facilitates the approval process.

In Queensland, a proponent of a project with complex approval requirements (i.e. involving local, State and Federal Governments; significant environmental effects; strategic significance to the locality, region or state, including for the infrastructure, economic and social benefits, capital investment or employment opportunities it may provide; or significant infrastructure requirements) may apply to have it declared a 'coordinated project' under the *State Development and Public Works Organisation Act 1971*.

While a wide range of government departments are responsible for reviewing applications under this process, ensuring the rigorous application of the relevant planning, zoning and development schemes, whole-of-government coordination reduces the compliance work required of applicants and

delivers timely approval decisions allowing people and businesses to take advantage of new economic opportunities.

The Final Report could be bolstered by exploring how coordinated development assessment processes can augment the efficiency gains from well-tuned planning, zoning and development systems and facilitate the transitioning of regional economies following an economic shock.

### **Cairns Shipping Development and Environmental Policies**

The Initial Report quotes Regional Development Australia Pilbara's submission where they express the view that the

*'realisation of opportunities in the Cairns region are variously being held back by extreme environmental policies ... Major additional costs ... are currently being imposed on the urgently needed deepening of Cairns seaport to take increasing size of ships needing to use the port, by requiring on-shore placement of dredged material. The cost of upgrading the Kuranda Range Road, Cairns' main westward link in the region has been 'blown out' by excessive costs of meeting extreme environmental parameters.'*

The Queensland Government is committed to encouraging economic development in Cairns and other areas of regional Queensland, but is cognisant this development needs to be carefully considered and believes that a balanced approach should be taken to its approval to ensure that key natural assets such as the Great Barrier Reef are protected.

For example, the Queensland Government notes the Cairns Shipping Development was one project affected by the change in Commonwealth and state policies to enhance protection of the Great Barrier Reef. The change was to prevent offshore disposal of dredge material and, in response, the proponent sought to investigate onshore disposal and beneficial reuse of the dredge material during the environmental impact statement process.

However, while the Queensland Government is committed to ensuring that appropriate environmental impact assessments and regulatory processes operate to protect significant environmental assets such as the Great Barrier Reef, it is also important to note that this will not necessarily impede the realisation of opportunities and effective development and investment in the Cairns region.

Indeed, as part of the 2017-18 State Budget, the Queensland Government committed \$60 million toward the \$120 million Cairns Shipping Development project, subject to a revised environmental impact statement and business case. At the time of drafting this submission, the Queensland Government is awaiting the submission of a revised environmental impact statement by the proponent.

## **Section 5.3: Facilitating transition and development in regions**

The Final Report should be informed by consideration of the following points related to the discussion of facilitating transition and development in regions.

### **Education and training**

The Initial Report notes that inadequate human capital has emerged as a key factor contributing to the low adaptive capacity of some Australian regions, particularly in outer-suburban metropolitan areas (p.140). It further notes that governments can encourage human-capital investment in regional communities through initiatives such as:

- promoting relationships between local industries and education providers to ensure education and training programs meet industry needs;
- encouraging skilled workers to relocate into regional areas; and
- collecting and providing information about skills in demand within a region.

The previous Queensland Government submission to the inquiry expressed the view that the delivery of and access to the right education and skills training needs to be a key government focus.

Developing a highly skilled and educated workforce assists with building the resilience of a region and attracting new and expanding industries. Individuals with greater education and skills can pursue a wider range of employment opportunities and adapt to new processes and technologies.

As such, the Final Report could be enhanced by having a stronger focus on the role and importance of delivering education and training to the regions.

Further, as noted in the previous Queensland Government submission, the adequacy, reliability and certainty of Australian Government funding has a significant impact upon the quality and sustainability of the Queensland Government's delivery of high-quality, well-coordinated human services.

For instance, the National Partnership Agreement on Skills Reform, which expired on 30 June 2017, has been superseded by the Skilling Australians Fund (SAF) announced in the 2017 Commonwealth Budget.

Australian Government funding for the SAF will be sourced from a new levy to be introduced from March 2018 that will be paid by employers sponsoring applicants for a skilled visa. From 2018-19, amounts available to the states will be determined by the revenue paid into the SAF and it is not yet clear whether the Australian Government will make up the difference or reduce the SAF forward estimates.

This ongoing lack of funding certainty has a significant impact on Queensland's capacity to plan for and deliver critical regional services.

### **Provision of essential human services to regions in transition**

The successful transition of regional economies to a more sustainable economic base will require the continued provision and adequate funding of essential human services including health, education and training, and housing and homelessness assistance to local communities.

As explained in the previous Queensland Government submission, such services are essential for social development, labour productivity and the ability for individuals to actively contribute to regional and local economies, particularly as the economy continues to transition, technology continues to transform industry and working life becomes more fluid. These trends highlight the need to equip Queenslanders for the jobs of the future as regional economies transition.

The Queensland Government believes the discussion of adaptive capacity and the policy framework outlined in the report could be improved by more comprehensively discussing the need for governments to fund and maintain an appropriate presence and scale of essential human services to support the wellbeing of people in regions. In some cases, the nature of a particular region's transition (e.g. resulting in changes in demographic composition, labour market or social outcomes) may result in greater demand for some essential services or a significant change in the mix of services required.

On page 29 of the Initial Report, it is noted that *"[t]here may be instances where environmental or economic change in regions and the accompanying transition process result in continued decline in employment and economic activity that cannot be feasibly reversed."* In such situations, the Report recommends that governments manage depopulation and facilitate movement while maintaining a minimum level of services which "does not mean that services should be provided within all towns or at the same level as might be expected in a major urban or regional centre."

The Queensland Government acknowledges that services in a region should be funded and provided commensurate with the level of the population and demand for those services. However, any reduction of essential services to regions in transition needs to be carefully and thoroughly considered to ensure it does not exacerbate the challenging conditions being experienced in the region or result in any unintended negative consequences, including reducing the region's adaptive capacity.

In addition, it is important to consider the links between economic deprivation and poor health outcomes and how the hardship that can accompany economic transition in regional communities can increase demand for health services.

The Queensland Government does not agree with the assertion that services, including health, have relocated from smaller to larger regional towns as suggested on page 20 of the Initial Report.



The requirement for local, accessible health care remains important for regional communities and the Queensland Government remains committed to providing all Queenslanders with a high level of government services including the essential services necessary to support regions as they transition to broader-based drivers of growth.

The Final Report would be improved by further clarifying this point, including discussion of the difficulties in identifying regions where service provision may need to be reduced and the risks involved in pre-emptively reducing the provision of essential services.

### **Demographic characteristics of regions**

The Queensland Government's previous submission suggested the policy framework developed by the Productivity Commission should give consideration to the demographics of the region, including:

- age structure, as older residents may be less geographically fluid;
- historical population trends in response to cyclical movements, which may indicate population 'stickiness';
- families;
- workers;
- Aboriginal and Torres Strait Islander people; and
- culturally and linguistically diverse groups.

In response to the Initial Report's coverage of these topics, the Queensland Government encourages more emphasis in the Final Report on the development of policies and programs that are conducive to attracting and retaining an age-friendly workforce. This includes in areas such as working conditions, flexible workforce arrangements, incentives to work for older people and incentives to business to employ older people, the provision of training and skilling programs, regional connectivity and workforce mobility.

Encouraging and promoting self-sufficiency in retirement through continuing to work is an important strategic priority which can reduce the overall demand for Commonwealth and state Government expenditure on age pensions, health services and aged care. National marketing and promotional efforts can also break down ageist perceptions about older workforces, showcasing the value of older people to foster respect and acceptance in the workplace.

A continued national emphasis in these areas is important for the nation's productivity and for regional Queensland, in particular for areas such as the Wide Bay Region with a relatively large ageing population.

Another important group which continues to experience disadvantage in accessing labour market opportunities are Aboriginal and Torres Strait Islander people. Economic transition can exacerbate existing levels of disadvantage and pre-existing entrenched exclusion from the labour market may leave Aboriginal and Torres Strait Islander people less able to move into new work opportunities.

The Queensland Government is committed to improving employment outcomes for all Queenslanders, including in remote and discrete Aboriginal and Torres Strait Islander communities. Therefore, the Final Report should discuss the importance of ensuring better outcomes for Aboriginal and Torres Strait Islander people, such as through the provision of capital works, as well as targeted delivery of Government programs and services in affected regions.

### **Labour mobility**

The Queensland Government's previous submission argued that labour mobility is an important element of a well-functioning labour market which contributes to economic efficiency and community wellbeing, as highlighted in the Commission's comprehensive 2014 report on Geographic Labour Mobility. It highlighted that, given Queensland's position as one of the largest states in Australia and its decentralised population, ensuring people are able to move across the State to take up job opportunities is particularly important.

The Queensland Government urges the PC to further investigate relevant issues related to labour mobility in Queensland and Australia in more detail as part of the Final Report, including the institutional, legal, economic, socio-cultural and other factors that influence trends in labour mobility and how these might differ between regions. It should also explore barriers to both the geographic and occupational mobility of the population in the context of transitioning regional economies.

### **Innovation, entrepreneurship and the knowledge economy**

Entrepreneurship and innovation are key drivers of economic growth, increased productivity and improvements in living standards and wellbeing, by creating additional employment opportunities and enhancing the skills and knowledge of the workforce.

A key driver of innovation is increased competition. The Queensland Government's ongoing focus on ensuring the State's regulatory and policy frameworks create and sustain an environment conducive to business investment and confidence will also help support the ongoing development, adoption and diffusion of innovative approaches and technology across traditional and new industries.

The Queensland Government has also made a significant commitment to driving innovation and entrepreneurial growth through the Advance Queensland suite of programs, including its focus on small business, based on international evidence of 'what works' to create the knowledge-based jobs of the future.

An important factor in transitioning Queensland's regional economies from traditional primary production and resource industries is their ability to participate in the knowledge economy. While the Initial Report focusses significantly on the provision of telecommunications infrastructure to regional centres, in order to facilitate the transition to the knowledge economy, it would be beneficial if the Final Report further explored the importance of facilitating innovation, including discussion of the importance of key enabling components such as those underpinning the Queensland Government's Advance Queensland initiative:

- 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; and
- Grow the competitiveness of our businesses, industries and regions through programs to accelerate growth and unlock new markets and opportunities.

The Queensland Government has invested \$420 million in Advance Queensland initiatives to drive innovation-led growth across the State. Examples of Advance Queensland programs that support transitioning regional economies, including through the enabling components listed above, are outlined in Appendix 3.

### **Infrastructure**

As highlighted in the original Queensland Government submission, the development of new infrastructure will play an important role in assisting regional economies transition from the resources boom and in opening up new industries, especially those that harness the competitive strengths of the regions. This includes both physical and digital infrastructure that supports new economic activity across more traditional and emerging industries including agriculture, tourism and renewable energy.

The Queensland Government is committed to delivering and facilitating infrastructure in regional Queensland to support liveability, employment opportunities, productivity and the promotion of access to markets, as outlined in the State Infrastructure Plan.

In particular, it is suggested the Productivity Commission's policy framework be further refined to consider the level of transport connectivity between regions, including major road and rail links, and the extent to which this aids or hinders regional development or short-distance labour mobility.

Transport infrastructure is a key determinant of regional adaptiveness, both in terms of how it enables trade and industry diversification, and through its role in connecting labour markets. The high cost of transport from farm gate to port is an ongoing item of discussion between government agencies and peak bodies representing the agricultural sector. For example, stakeholders have noted it can cost more to transport a bale of cotton from Goondiwindi to the Port of Brisbane, than to ship it from the Port of Brisbane to China.

The importance of providing an efficient and productive transport system for all regions is reflected in the Queensland Government's long-term policies and strategies, including the:

- State Infrastructure Plan (SIP) which outlines, by region, potential future projects to support economic development opportunities and productivity in regional Queensland; and
- Queensland Transport and Roads Investment Program (QTRIP), which reflects the Queensland Government's efforts in planning and defining future investment priorities in transport infrastructure to facilitate and ensure regional development.

Particularly in light of the shared Commonwealth and state responsibility for major road projects, the Queensland Government suggests the Final Report would benefit from a more comprehensive discussion of the impact that the provision of transport infrastructure has on the resilience of regional economies. In addition, the report should discuss how the development of new coordination mechanisms to support regional development, such as City Deals, should be informed by long-term priorities and strategies like the Queensland SIP and QTRIP.

The Queensland Government also notes the Initial Report notes that many submissions highlighted the importance of telecommunications. Any discussion of regional connectivity must include consideration of digital and telecommunications connectivity. Digital technology can be as important as road or rail in connecting communities, especially in the context of transitioning economies where it may reduce the reliance on moving physical products from extractive and primary industries.

The digital economy requires high-speed, reliable and affordable telecommunications and digital services to support online activities, innovation and global marketing. This is an essential component of any economic transition.

### **Supporting regional economies impacted by natural disasters**

The Queensland Government considers the Final Report would benefit from an examination of the impact of natural disasters on regional areas, including the impact that natural disasters have on the resilience of regional economies undergoing longer term transition.

This could further inform the development of policy responses and the role of governments in both promoting and building disaster preparedness, as well as in the aftermath of natural disasters.

The Queensland Government works closely with key stakeholders to undertake and coordinate recovery efforts, including by providing a suite of grants to assist affected households meet their immediate financial needs and contribute towards the cost of repair where applicable.

Severe Tropical Cyclone (STC) Debbie, which swamped remote, rural, coastal and urban areas of Queensland in early 2017, is estimated to have detracted around \$2 billion or ¼ percentage point from economic growth in Queensland across 2016-17 and 2017-18.

The impact was primarily on Queensland's resources and agricultural production, as well as on the State's tourism sector. This includes the estimated loss of around 10 million tonnes of coal exports due to damaged rail infrastructure, around \$300 million of losses to sugar exports and a considerable impact on tourism in the Whitsundays region.

The Queensland Government, through its Operation Queensland Recovery efforts, is committed to helping areas of regional Queensland impacted by recent natural disasters to get back on track faster, while building a safer and more resilient state.



The Queensland Government is expecting to spend over \$1 billion to restore essential public assets before reimbursements from the Australian Government through the jointly-funded Natural Disaster Relief and Recovery Arrangements (NDRRA). This includes significant investment to rebuild damaged roads and local government infrastructure, as well as providing assistance to individuals, families and businesses impacted by the disaster.

Previously, in February 2015, Severe Tropical Cyclone Marcia impacted areas of Central Queensland. In response to that disaster, the Queensland Government approved over \$200 million in funding to local and state agencies to clean up and restore damaged infrastructure. The Government also provided a suite of financial assistance to communities in Livingstone, Rockhampton, Banana, North Burnett and Gladstone local government areas.

### **Climate change**

The Queensland Government notes that issues related to climate change do not feature substantially in the Initial Report as a key factor influencing a region's capacity to adapt to changing economic and environmental conditions over the longer term.

For example, some of the large areas of Queensland identified as least adaptive using the single economic metric (South West, Gulf and Cape) are also highly exposed to climate risk. Climate change will therefore have a significant impact on the ability of these regions to transition in response to changing economic circumstances.

The Queensland Government considers the Final Report would benefit from an examination of the impact of climate change. This should include discussion of:

- the impact of climate change on regions in transition;
- the drivers of new, emerging or low-carbon industries and how these drivers may impact on regions in transition; and
- how adaption to climate change will affect the provision of essential services and infrastructure.

### **Other factors specific to individual regions**

In addition to the key issues outlined above, it may also be important for the Final Report to consider other factors that may be significant in terms of specific regions, in terms of both the economic transition of a region and in supporting and facilitating the effective environmental transition of areas.

These could include significant external factors impacting on the economic sustainability of regions, such as the exhaustion of commercially viable mineral deposits, major extractive or other commercial operations coming to the end of their useful life, or significant changes in national regulations that impact upon the viability of regional industries.

Given the nature of these factors, in some cases there may be limited capacity for governments to directly address or mitigate the impacts of these factors. Therefore, this highlights the need for detailed and case-specific consideration being given to how to effectively assist regions transitioning in response to these types of factors. In these cases, a broad, comprehensive approach across all levels of Government is likely to be necessary, as highlighted in the case study in Appendix 1 on the Queensland Government's Strategic Blueprint for Queensland's North West Minerals Province.

Further, an example of a factor to be considered in terms of its impact on the environmental transition of regions is mine rehabilitation. Part of a successful transition strategy, in particular for mining regions, is the effective and appropriate rehabilitation of mining sites. Clearly, effective rehabilitation has both employment implications (i.e. from the ongoing work and investment involved in undertaking this work during and beyond the productive life of the mine) but is also critical in ensuring environmental impacts are appropriately managed in areas transitioning from mining.

The rehabilitation reform project currently being undertaken by the Queensland Government seeks to maximise the mined land that is able to sustain post-mining land use, minimise the time required to attain the post-mining land use and grow a rehabilitation industry in Queensland. This project will have implications for the future development of regional economies.

In particular, this project can provide support to the policy focus area of facilitating feasible and commercially viable economic diversification activities through the rehabilitation of land that is able to sustain sequential post-mining land use.

The Productivity Commission's Final Report may benefit from further investigation or discussion of this and other similar factors that need to be considered in the context of specific regions or industries, including other factors that need appropriate focus in the context of ensuring effective environmental outcomes in those regions.

### **Update on City Deals**

In several places the Initial Report explores the City Deals initiative. Since the Queensland Government's last submission there have been some significant developments in Queensland relating to this initiative.

The Queensland Government, the Australian Government and Townsville City Council have released an implementation plan (on 24 April 2017) which provides the detail on the delivery of the 16 inaugural commitments under the Townsville City Deal, including timeframes, key milestones and opportunities for ongoing community and industry engagement.

The Queensland Government's 2017-18 State Budget also allocated funding tied to specific commitments under the Deal including: \$225 million to act on the findings of the intergovernmental Townsville Water Security Taskforce to support sustainable and secure long-term water supply for Townsville; and \$75 million towards the Port of Townsville channel capacity upgrade project.

In relation to the Productivity Commission's finding 5.3 in the Initial Report, the Townsville City Deal is scheduled for a formal review by the three tiers of Government at the end of 2019. An annual report will also be publicly released with the first due in the last quarter of 2017.

City Deals are in varying stages of development and implementation for Townsville and the South East Queensland region. Further consideration of stand-alone City Deals or a City Deals-style approach for other Queensland regional centres requires consideration of the appropriateness of the mechanism giving due consideration to localised issues and challenges.

## Appendix 1: Queensland Government Case Studies

### Case Study 1: A Strategic Blueprint for Queensland's North West Minerals Province

The North West Minerals Province (NWMP) in Queensland, centred on Mount Isa, is one of the world's richest producing areas containing copper, lead and zinc as well as major silver and phosphate deposits and strong rare earth potential.

The NWMP's mining industry has historically been the primary driver for regional employment and economic growth. These activities also have important flow-on effects in the local economy, other regional areas and for the State's economy, including through supply chain linkages to metal refining and port facilities in Townsville, and the employment of fly-in fly-out workers from Townsville, Cairns and South East Queensland.

However, the significance of the mining industry and its remote geographic location has meant that the NWMP is one of the regions in Queensland that has been exposed to fluctuating prices in the commodity market.

In response to these challenges, in November 2015 the Queensland Government supported the establishment of the NWMP Taskforce to identify issues affecting the Province's mining industry and to help plan a strategic way forward.

While the Taskforce primarily focused on issues impacting the mining industry, and identified other issues such as maturing large operations, there is also an opportunity to look more broadly and build on other economic strengths and opportunities to facilitate more diversified drivers of economic growth. A holistic approach that leverages strong partnerships with local industries, communities and key stakeholders will be essential to build on the strength, prosperity and resilience of the NWMP over the long term.

As part of the 2017-18 Queensland State Budget, the Queensland Government announced a *Strategic Blueprint for Queensland's North West Minerals Province* (the Blueprint) to facilitate a strong future for the NWMP by building on its economic strengths and supporting strong communities.

The Blueprint, formally released on 19 July 2017, outlines current actions and more than \$39 million in new short to medium-term initiatives over four years to deliver three strategic priorities:

- Facilitating continued resources sector development;
- Diversifying the regional economy and creating employment opportunities; and
- Working with businesses and communities to deliver integrated and appropriate services.

The Blueprint also provides an important platform for future action with industry, business, the community and other levels of government to facilitate the future prosperity of the region and community wellbeing.

These priorities and the specific initiatives to be outlined in the Blueprint are consistent with the guiding principles identified in the Initial Report into Transitioning Regional Economies to support the successful transition and development of regional communities.

The Initial Report highlights policies to support regional development have the best chance of success when regional communities are involved in identifying strategies to facilitate development. The Queensland Government will be ensuring key local stakeholders are closely involved in the ongoing development, implementation and review of the Blueprint. In particular:

- Development of the Blueprint was informed by the work of the Taskforce and other targeted stakeholder consultation;
- A regionally-based Implementation Team will be established to lead local coordination and reporting and key Blueprint implementation initiatives;
- Implementation of the Blueprint will also be guided by regular meetings of a new Stakeholder Advisory Committee, comprised of representatives from industry, business, regional

economic development groups, community leaders, Traditional Owners and local and federal government;

- A North West Futures Forum will be held in late-2017 to provide a focal point to capture the collective understanding of key stakeholders, political leaders and other invited speakers about opportunities for innovation and development in implementing the three Blueprint strategic priorities; and
- Stakeholder input will also inform reviews of the Blueprint every two years.

The Initial Report also stresses that policies should build on a region's relative strengths to facilitate new opportunities for growth. Development of the Blueprint is again strongly aligned with this principle, including:

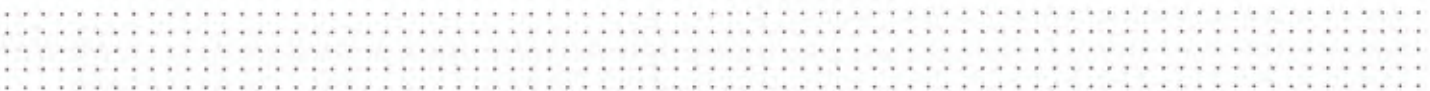
- Strategic Priority 1 of the Blueprint (facilitating continued resources sector development), focuses on measures to assist the resources sector find the next generation of commercial deposits in the NWMP, further promote the region to potential investors, and facilitate the development of current and future commercial resources projects entering the investment pipeline. Significant funding of \$30.9 million was committed in the State Budget to implement initiatives to help facilitate exploration and development of the resource sector.
- A further \$5.5 million has been committed to leverage and identify commercially viable economic development and job creation opportunities in key sectors, including resources, agriculture, enabling infrastructure, tourism, and business and industry. This includes, for example, the completion of an infrastructure audit to help enhance and optimise the efficient use of physical infrastructure to facilitate development opportunities.

Investing in the capabilities of people and regional connectivity is another guiding principle identified in the Initial Report to support the transition and development of regional areas. Consistent with this principle, a key focus of the Blueprint, across all three strategic priorities is building the resilience and capacity of individuals and communities in the region through a range of measures, including:

- A North West community resilience strategy will be developed, with a focus on enhancing the NWMP's capacity to adapt and evolve with the changing social and economic landscape as the Province transitions towards a potentially more diverse economic base;
- A key role of the Implementation Team and the Blueprint more broadly will be to facilitate improved linkages between employers, employees, jobseekers and training opportunities and providers. As such, the Implementation Team will provide information to businesses, communities and individuals about initiatives at all levels of government, including information about job search, retraining activities and financial support, and Queensland Government initiatives that support businesses, personal and community resilience, and wellbeing;
- Two additional Youth Employment Program coordinators will be recruited to assist Aboriginal and Torres Strait Islander Year 12 students and their families to identify and plan for better outcomes in training and employment opportunities. A new Youth Navigator will also support young people in the NWMP to access education, training and employment opportunities;
- The Queensland Government is committed to continuing to support feasibility work for a more stable and reliable track structure for freight services along the Townsville Eastern Access Rail Corridor, which will create greater capacity on this section of the Mount Isa rail system, which is a critical link between the NWMP and the Port of Townsville; and
- The Queensland Government will develop a regional digital strategy to assist local businesses and remotely located start-ups and entrepreneurs maximise their capacity to access digital and telecommunications infrastructure to access state and global markets.

The initiatives discussed above, while only a selection of those to be included in the Blueprint, highlight the importance of government ensuring a broad, multi-faceted approach to supporting communities and facilitating growth and diversification in transitioning regions such as the NWMP.

Through the development, release, implementation and ongoing review of the Blueprint, the Government will provide a strong foundation to galvanise integrated and ongoing partnerships with



federal, state and local governments, business, industry and local communities, to support strong and prosperous regional communities in the NWMP.



## Case Study 2: Building our Regions

Since December 2015, the Queensland Government's Building our Regions Program has approved \$225 million in *Building our Regions* funding for 174 projects towards projects that will deliver tangible benefits to regional Queensland communities. This funding is estimated to support more than 1,762 jobs over the life of these projects.

Building our Regions is a \$375 million targeted regional infrastructure program for local government projects. The primary purpose of the Building our Regions program is to provide funding for critical infrastructure in regional areas of the state, while also generating jobs, fostering economic development and improving the liveability of regional communities. Program outcomes include, but are not limited to:

- cultural, sports and recreational infrastructure;
- economic development infrastructure;
- flood mitigation infrastructure;
- road and transport infrastructure;
- social infrastructure; and
- water, sewerage and waste infrastructure.

By helping facilitate productivity-enhancing economic and social infrastructure, Building our Regions continues to play a key role in supporting transitioning regional economies, both in terms of broader regional economies and more localised economies.

Building our Regions is an example of the place-based approach to supporting regional transition and development advocated for in the Initial Report. The program provides support for local-government projects which are critical to the functioning of local communities and have a significant impact on their prosperity and wellbeing. Therefore, the underlying approach adopted in developing and implementing Building our Regions aligns with the Initial Report's acknowledgement that local stakeholders are often best placed to inform and shape strategies and specific projects that help facilitate regional economic transition.

### Building our Regions project example: Tambo Sawmill Infrastructure Upgrade

Tambo, situated on the Barcoo River in central western Queensland, was struggling through drought and mining downturns when Blackall - Tambo Regional Council (the BTRC) bought the disused Tambo sawmill in 2014.

The BTRC purchased the sawmill, secured a timber allocation, and sought expressions of interest from experienced operators to lease and operate the mill (with the intention of restarting operations to create jobs and boost the local economy).

BTRC's Mayor Andrew Martin said, when operational, the Tambo sawmill will support 13 jobs and provide a boost to local employment opportunities and economy.

"In a small town like Tambo with 359 people, those jobs are a big jump in employment," Mayor Martin said. "With just over \$600 000 contributed by the Australian and state governments, we're able to upgrade and recommission the mill."

"Mill operations have the potential to inject \$1 million dollars per year into the town of Tambo and the surrounding region; maybe even more with some innovative value-adding ideas that we're currently considering - such as the addition of a planning room to enable polishing tongue-and-groove, shrink-wrapped firewood, and producing mulch."

### Case Study 3: Ageing in Place Pilot Program

The liveability of regions is identified in the Initial Report as an ideal component/indicator of natural capital - a factor influencing adaptive capacity - although it notes that there are no available data to include this indicator in the metric.

The Queensland Government's Ageing in Place project is an example of how regional liveability can be improved by the provision of appropriate and affordable housing, including for senior citizens.

As part of the Regional Liveability Strategy, Economic Development Queensland has developed the Ageing in Place project to deliver homes aimed at keeping senior citizens within their communities close to family and friends. By enabling senior citizens to remain closer to their family and friends, the pilot project will also improve social cohesion, a component social capital, one of the other identified factors of adaptive capacity.

Following engagement with councils and with their support, Cloncurry, Barcaldine, Ravenshoe and Ayr have been identified as the candidate towns for the four pilot projects.

Each pilot project would involve building two bedroom, low-set homes, featuring wider doorways and hallways, slip resistant kitchen and shower floors, step free access throughout, reinforced bathrooms to enable the installation of grab rails, outdoor scooter storage and charging point, multi-height kitchen benches and personal safety switches for emergency care.

Other technologies are included to make the houses more energy and water efficient such as solar panels.

The Ageing in Place pilot project is providing suitable housing options to enable people in their senior years to stay in their towns, close to friends and family. It aims to show the development and construction industry that there is a market for adaptable and accessible housing in regional areas.

Further, to determine which sites would be selected for this program, each potential site was required to demonstrate how the proposal would generate, facilitate or accelerate economic benefit to the local community (for example, through job growth). Therefore, this program has significant potential to support transitioning economies, including those enduring a longer term transition due to an ageing population.

The estimated number of jobs to be generated from the pilot program is seven FTE jobs; however, construction of the homes is expected to support up to 20 people per town in a range of local trades and businesses including builders, electricians, plumbers, painters, landscapers, consultants, sales agents and council staff.

Economic Development Queensland will conduct an evaluation of the success or otherwise of the pilot based on actual performance in terms of sales rate, economic benefits (jobs generated), community benefits (how many people remained in town) and financial results. This is consistent with the Initial Report's focus on the importance of robust evaluation of programs intended to support regional adaptation and development.

## Case Study 4: Bundaberg State Development Area

In February 2017, the Bundaberg State Development Area (SDA) was established in response to growing demand for land for port-related and industrial activities around the Port of Bundaberg.

The Bundaberg SDA will serve as a catalyst for the future growth of the area. In addition to exploring new trade opportunities, the Bundaberg SDA could help facilitate economic growth and employment opportunities in the Bundaberg and Wide Bay Burnett regions.

The use of designated development areas like SDAs is a way that governments can remove barriers to regional transition, as recommended in Chapter 5 of the Initial Report.

By providing greater planning and development certainty for project proponents, engaging in best practice land-use planning and management, and by increasing the efficiency of land use (most notably through the creation of multi-user infrastructure corridors), the Queensland Government is letting local firms get on with the business of operating efficiently and taking up potentially profitable opportunities – creating the jobs that will sustain communities facing economic transition.

The 6076-hectare Bundaberg SDA is located north of Bundaberg city and includes:

- land on the eastern side of the Burnett River near the Port of Bundaberg, including surrounding port-related industrial uses; and
- land on the western side of the Burnett River, predominantly used for sugar cane cultivation and rural landholdings.

The declaration, through the Coordinator-General, occurred following detailed investigations undertaken by the Queensland Government to determine the feasibility of a potential SDA around the Port of Bundaberg, and included detailed analysis of:

- economic development opportunities;
- physical and environmental constraints;
- community and environmental impacts; and
- infrastructure requirements.

The declaration was also informed by the local community during a public consultation process held in July 2016.

Whilst future development in the SDA will be driven by market demand, the SDA is expected to accommodate regionally significant industry and infrastructure development, as well as port-related uses.

The gas pipeline to the Port of Bundaberg, completed in early 2017, will support the development of industries in the SDA, such as the \$70 million Knauf plasterboard manufacturing facility. The Knauf facility is currently under construction and due to open in August 2017.

Since the declaration of the SDA, the Department of State Development has met with proponents interested in locating near the Port of Bundaberg, including Knauf.

The next step in the SDA process is preparation of a development scheme, which will outline development precincts and preferred uses within these precincts. The preparation of a development scheme will be subject to additional consultation with the community and stakeholders.



## Case Study 5: Supporting and facilitating growth in regional Queensland

As noted by the Productivity Commission in its Initial Report into Transitioning Regional Economies, the most appropriate policy responses to changing regional economic circumstances depends on the adaptive capacity of individual regions and the nature of the changes they face. The Initial Report also highlighted that policies should be aligned with a region's strengths and supported by targeted investment to develop the capability of the community to deal with transition and adaptation.

Consistent with these findings, the Queensland Government's existing and 2017-18 Queensland Budget initiatives includes a range of policies and programs to provide support and facilitate economic activity in regions impacted significantly by the recent slowdown in mining related activities (such as the North West, Outback Queensland and Townsville), as well as regions facing challenges due to ongoing drought or the impacts of recent natural disasters.

The 2017-18 Queensland State Budget, delivered on 13 June 2017, is focused on supporting continued growth and creating jobs for Queensland.

In total, around \$4.8 billion of the Government's \$10.17 billion capital works program in 2017-18 is dedicated to delivering productive and essential infrastructure in regional Queensland.

Overall, it is estimated the capital works program and the implementation of other key existing and 2017-18 Budget initiatives will directly support around 22,000 jobs, predominantly in the private sector, in regional Queensland in 2017-18.

Key Queensland Government initiatives focussed on enabling the State's \$300 billion economy to better transition to a more innovative, diverse and productive economy include:

- **Facilitating investment and leveraging regional economic strengths and opportunities**
  - \$200 million Jobs and Regional Growth Package to leverage private sector investment and create job opportunities in regional Queensland, including providing assistance for Mackay's proposed \$50 million biorefinery to help accelerate the project's development and construction;
  - \$375 million Building Our Regions program to provide funding for critical infrastructure in regional areas of the state, while also generating jobs, fostering economic development and improving the liveability of regional communities. \$225 million in *Building our Regions* funding has been approved so far to 174 projects across Queensland. This funding is estimated to support more than 1,762 jobs over the life of these projects;
  - \$400 million Works for Queensland Program to support local governments outside South East Queensland that are facing unemployment issues to undertake job-creating maintenance and minor infrastructure works. More than 700 projects have been approved to date and Councils have estimated those projects would support sustain or create almost 6,000 jobs in regional towns and cities over the life of the projects;
  - Advancing Tourism 2016-2020 Strategy, a recently launched strategy to boost tourism exports and attract job-creating investment;
  - \$33.5 million Connecting with Asia Strategy to help tap into new opportunities provided by the growing middle class in Asia; and
  - \$42.3 million Natural Resources Investment Program.
- **Increasing regional employment opportunities and improving the skills and capability of regional jobseekers**
  - \$177.5 million Back to Work Program to provide businesses with the confidence to employ jobseekers in regional Queensland. As of 30 June 2017, the Back to Work Program had assisted in 5,275 jobseekers being employed throughout regional Queensland;
  - \$240 million Skilling Queenslanders for Work Program to assist Queenslanders to develop skills, undertake paid work placements and earn nationally recognised qualifications. So far, Skilling Queenslanders for work has provided training and skills

development opportunities for more than 19,400 disadvantaged Queenslanders of whom more than 9000 have secured a job;

- \$9 million Regional Skills Investment Strategy to partner with selected regions to identify current and emerging jobs, and ensure a supply of skilled local people to meet this demand; the strategy will complement Jobs Queensland workforce planning projects; and
- \$10 million Regional Skills Adjustment Strategy to target regions facing economic uncertainty by supporting individuals to gain the foundation, employability and technical skills to transition to jobs in demand, delivered through TAFE Queensland.

- **Building the resilience and adaptive capacity of regional communities and economies**

- \$1.1 billion allocated in the 2017-18 Budget to rebuild critical infrastructure in regions impacted by STC Debbie and related flooding;
- Continuing to tackle the impacts of ongoing drought through the Drought Assistance Package; and
- \$39 million over four years to deliver initiatives to support the North West Minerals Province, including \$27.1 million for the Strategic Resources Exploration Program.

- **Enhancing the liveability of regions and communities through investments in Indigenous arts, arts infrastructure and cultural tourism**

- \$6.5 million over four years for Indigenous and regional arts initiatives, including employing regionally-based arts officers;
- \$2.1 million in 2017-18 to create an Indigenous arts incubator - to support Indigenous performance companies and artists, generating employment and cultural tourism opportunities;
- \$2 million in 2017-18 to support initial planning and relocation of the Rockhampton Arts Gallery as part of Rockhampton Regional Council's vision for a new CBD arts precinct; and
- \$15 million towards the Cairns Performing Arts Centre, expected to open mid-2018.

## Appendix 2: Detailed comments on the proposed measure of regional adaptive capacity

As highlighted in the Queensland Government's initial submission, the practical challenges involved in determining appropriate indicators to combine in an economic metric include:

- identifying an appropriate methodology for weighting individual indicators;
- separating economic dislocation and transitional friction from long-term trends; and
- choosing an appropriate geographical scale.

The technical supplement released by the Productivity Commission confirms these practical challenges. The following comments discuss each of these issues and the potential limitations of the proposed measure in the context of these key considerations.

### Identifying an appropriate methodology for weighting individual indicators

The use of Principal Component Analysis appears a reasonable approach to the weighting of individual indicators. However, there appear to be significant issues with the application of this methodology to the task of ranking regions by adaptive capacity. These issues are highlighted in the Initial Report and the Technical Supplement:

- "There are a large number of regions whose rankings could change substantially when variables are included or excluded from the analysis."
- "A number of the variables included in the metric analysis are imperfect proxies of the underlying factors thought to shape adaptive capacity."

The appropriateness of the proxy variables selected is of particular issue. For example, the proportion of the population who have completed year 12 seems a poor proxy indicator of human capital given that it does not capture the variability in educational outcomes between high-school graduates. Similar issues are also noted regarding the economic significance of including property prices or home ownership (ignoring the value of mortgages) as indicators of financial capital. It is unclear whether these variables demonstrate a household's financial capacity to relocate in the face of economic dislocation, or adaptive capacity.

Furthermore, it would be appropriate and beneficial for the Final Report to highlight the importance of other factors that impact on a region's adaptive capacity that are not explicitly included in the index such as:

- divergent outcomes for Aboriginal and Torres Strait Islander people. Transitioning regional economies can exacerbate existing levels of disadvantage and pre-existing entrenched exclusion from the labour market may leave Aboriginal and Torres Strait Islander people less able to move into new work opportunities;
- the rate of homelessness, rental vacancy rates and housing costs (private rental and ownership). These factors may better illustrate economic dislocation/engagement, local economic sustainability and the social welfare of regions;
- the scale and funding levels of essential human services present in identified regions
- the resilience aspects that influence how a community can respond, recover, and/or adapt to a natural disasters; and
- environmental factors influencing a region's capacity to adapt to changing economic circumstances over the longer term. For example, the large areas of Queensland identified as least adaptive using the Productivity Commission's metric (South West, Gulf and Cape) are also highly exposed to climate risk.

The significantly imperfect nature of the proxies selected and the non-representation of many relevant factors render the index a highly uncertain measure of adaptive capacity. As the Initial report states, "[the confidence intervals reported] should therefore be thought of as lower-bound estimates of the sensitivity of the results."

## **Separating economic dislocation and transitional friction from long term trends**

The methodology does not adequately separate economic dislocation and transitional friction from long-term trends. The Initial Report explains that “[t]he goal is to identify ‘disruptive events’ in regional economies by examining the path of economic growth over time” and that “It is challenging to distinguish between genuine ‘disruptive events’ and the normal cyclical ups and downs and variability in performance”.

This task requires indicators that have an adequate time series and sufficient frequency to tease apart the two issues. The absence of any time-series data makes it difficult for the index to perform this function.

## **Choosing a geographical scale**

By choosing SA2 as the unit of analysis, the Productivity Commission has effectively excluded available time-series data (with the consequences discussed above).

Furthermore, while aggregating to an SA4 level would not address the issue of using a ‘single point in time’ dataset, it may be worthwhile for the Productivity Commission to investigate whether results produced by PCA at the SA4 level would be more robust.

It is noted that the SA2s which show the largest range in the estimate of the 90 per cent confidence interval for their final index are predominately influenced by having a large negative value for their Herfindahl index of industry concentration.

The Queensland Government suggests that the PC explores alternative geographical units of analysis for the index, which take into account factors such as labour mobility and supply-chain links. In this regard, it may be beneficial to investigate the applicability of regional demarcations such as approaches used in the development of Functional Economic Regions developed by the Centre of Full Employment and Equity.

## **Limitations of Index in informing policy development**

Given the significant limitations of the Index as a measure of regional adaptiveness, the Queensland Government suggests that the Final Report should more clearly highlight the extent to which application of the Index is useful or appropriate to inform policy development, particularly within the framework outlined in chapter five of the Initial Report.

This should include further emphasis on the key role that factors not necessarily reflected in the Index (e.g. education, human services, demographic changes, climate change, and infrastructure) play in the context of transitioning regional economies.

## Appendix 3: Advance Queensland

Examples of Advance Queensland (AQ) programs that support transitioning regional economies by enabling participation in the knowledge economy include:

- Ignite Ideas Fund - assists small to medium size enterprises (SMEs) to commercialise new or improved products, processes or services to secure investment, grow and launch into global markets.
- Knowledge Transfer Partnerships - assist SMEs to employ graduates to work on strategic innovation projects. Collaboration and knowledge transfer occurs through business partnerships with universities when selecting graduates.
- Innovation Partnerships program - supports research organisations to undertake collaborative research projects with end-users (industry, SMEs, public sector and non-government organisations) that address an industry or end-user issue.
- Business Development Fund - focuses on the growth of innovative Queensland businesses, particularly in the emerging industries of tomorrow. Through providing early stage co-investment funding, the Fund will promote angel and venture capital investment in Queensland-based businesses. This will help facilitate the development of a sustainable private market for venture capital finance in Queensland.
- Industry Accelerator program - offers programs to develop and market-test new products and services, positioning participants to seek investment and customers. The program will encourage the development of innovative products and services to increase productivity and encourage global investment in Queensland.
- Platform Technology program - encouraging the development and use of platform technologies and their deployment in integrated systems by providing financial incentives to industry to support significant collaborative projects that accelerate the development and deployment of these technologies across Queensland.
- Small Business Innovation Research program - provides commercial opportunities for innovators while solving Queensland Government challenges. Through a competitive procurement process, Queensland Government challenges are released to be solved by the open market.
- Queensland Startup Events and Activities Fund - provides funding to eligible organisations throughout Queensland to deliver events and activities that build entrepreneurial and technology startup skills.
- Advance Queensland Industry 10-year Industry Roadmaps - building our competitive strengths, diversifying our economy and creating the knowledge-based jobs of the future. Six roadmaps will be produced for emerging and priority sectors that have been identified as having global growth potential.

Advance Queensland programs with a specific regional focus that are also enabling participation in the knowledge economy include:

- Advancing Regional Innovation Program (ARIP) - aims to turn Queensland's regions into hubs for innovation and enterprise. It enables local entrepreneurs, business leaders and key industries to collaborate closely with government to harness innovation and unlock business potential, strengthen existing industries and prepare regional Queenslanders for jobs of the future.
- Innovate Queensland workshops, collaboration events and webinars - held Statewide to help small to medium sized enterprises grow their business through innovation, technology commercialisation, innovation planning and R&D and design.
- The 3 Day Startup program - provides entrepreneurial training for young Queenslanders, and builds capability in Queensland universities in the regions including Rockhampton, Toowoomba and the Gold Coast.