



Submission to the
House of Representatives Standing Committee on
Industry, Innovation, Science and Resources

**Inquiry into
how the mining sector
can support businesses in
regional economies**

Local Government Association of Queensland
August 2018

Table of Contents

Summary of Our Submission	i
What the LGAQ seeks	ii
1 Introduction	1
2 The role of government	2
3 The objective of local content policy	3
4 Queensland code of practice for local content	3
5 A framework for action.....	6
5.1 A National Code of Conduct	6
5.2 Investing in capability and capacity building	7
5.3 Workforce attraction and retention	9
6 What the LGAQ seeks	10
7 Conclusion	11

Summary of Our Submission

Local governments in resource communities support the exploration and development of Queensland's mineral and energy resources. These councils understand that the resources sector is a substantial contributor to Queensland's economy, with an important role to play in generating local employment and business opportunities.

The recent revival of the resources sector provides opportunities for regional communities to access job and business opportunities associated with resource projects; however, realising these opportunities requires a more rigorous and collaborative approach between the resources sector, resource communities and Federal, State and local governments.

The LGAQ believes that resource communities should benefit from nearby resource projects and that resource project proponents have an obligation to help strengthen communities through providing them with the opportunity to access jobs and business opportunities associated with resource projects. Resource projects will leave nearby communities with a legacy and the role of all levels of government is to help ensure that this legacy is a beneficial one.

The LGAQ's submission identifies improvements that could be made to the governance framework surrounding resource sector support for regional businesses, as well as opportunities to build on existing arrangements and approaches that have proven to work well. While realising a more robust governance framework may take time, immediate gains could be made through stronger investments in building the capability of businesses in resource communities to access procurement opportunities and providing incentives to resource projects that support their efforts to embed local content procurement in their business practices.

What the LGAQ seeks

The LGAQ seeks:

1. That the policy objective of the Federal Government is to “*maximise the opportunity for local and regional businesses to provide goods and services to resource projects, including reducing barriers to entry to project supply chains*”.
2. That by 1 January 2020, Australia has a *National Code of Conduct for Resource Project Local Content Procurement* and that this code is developed with the participation of the resources sector, business and state and local governments.
3. That resource projects are required to provide data to an appropriate Federal Government agency regarding their procurement practices and that this agency (or other appropriate body) is resourced to analyse this data to determine trends in procurement practices and factors impacting these trends.
4. That an independent review of the resource sector’s procurement practices and performance is undertaken by 31 December 2024, with this review to include an assessment of the need for additional regulatory or other measures to accelerate improvements in local procurement practices by the resources sector.
5. That the Federal Government reduce transaction costs and capability deficits for local SMEs seeking to access resource project supply chains through increased investment in grants, tax rebates and business mentoring.
6. That the Federal Government reduce transaction costs and capability deficits in local procurement in the resource sector through grants and tax rebates to companies and through funding to support industry capability development measures (such as C-Res).
7. That the Federal Government increase the competitiveness and capability of SMEs in regional communities by increasing incentives and support for people to live and work in regional Australia, including through improved zone tax rebates and other measures.

1 Introduction

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association setup solely to serve councils and their individual needs.

The LGAQ has been advising, supporting and representing local councils since 1896, enabling them to improve their operations and strengthen relationships with their communities. The LGAQ does this by connecting councils to people and places that count; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

Local governments in resource communities support the exploration and development of Queensland's mineral and energy resources. These councils understand that the resources sector is a substantial contributor to Queensland's economy, with an important role to play in generating local employment and business opportunities.

The recent revival of the resources sector provides opportunities for regional communities to access job and business opportunities associated with resource projects; however, realising these opportunities requires a more rigorous and collaborative approach between the resources sector, resource communities and Federal, State and local governments.

The LGAQ appreciates the interest shown in this issue by the House of Representatives Standing Committee on Industry, Innovation, Science and Resources, through its *Inquiry into how the mining sector can support businesses in regional economies*. In developing our submission, the LGAQ has consulted with the following councils, which comprise members of the LGAQ's Resource Communities Advisory Group and other interested councils:

- Cairns City Council
- Cloncurry Shire Council
- Isaac Regional Council
- Mackay Regional Council
- Maranoa Regional Council
- Mt Isa City Council
- Toowoomba Regional Council
- Western Downs Regional Council
- Whitsunday Regional Council.

The LGAQ's submission identifies improvements that could be made in the governance framework for local content procurement in the resource sector, as well as opportunities to build on existing approaches that have proven to work well. Although realising a more robust governance framework may take time, immediate gains could be made through stronger investments in building the capability of regional businesses to access procurement opportunities and providing incentives to resource projects that support their efforts to build local supply chains.

2 The role of government

The LGAQ believes that resource communities should benefit from nearby resource projects and that resource project proponents have an obligation to help strengthen communities through providing them with the opportunity to access jobs and business opportunities associated with resource projects. It is our view that resource projects will leave nearby communities with a legacy and the role of government is to help ensure that this legacy is a beneficial one.

Queensland councils can cite many procurement opportunities that are being lost to communities, with the costs of such losses not only felt by regional communities, but also by resource projects that could benefit from shorter supply chains for high quality goods and services (some examples are provided in the box below).

To ensure procurement opportunities are fully realised by local businesses, resource projects need to partner with local government and communities in developing local workforces and businesses that can fulfil their supply chain and workforce needs. The role of Federal and State Governments is to encourage resource projects to meet their supply chain needs locally through:

- Major project requirements (project conditions) relating to procurement and workforce employment and development.
- Data collection and analysis that tracks industry procurement performance against agreed benchmarks.
- Incentives for major projects to employ local workers (including apprentices) and procure supplies from local businesses.
- Support for small and medium businesses to develop their capability and capacity to meet major project procurement requirements.

Victorian beef supplied to leading Queensland beef region

In the Western Downs region (with Dalby, Miles and Chinchilla as its main regional centres) a workers' camp for the coal seam gas (CSG) industry with a 20,000 strong workforce has its beef supplied from an abattoir in Victoria. Beef is being supplied from Victoria even though the camp is in one of the strongest and best beef producing regions in Australia.

Laundry sent to Brisbane & back

Western Downs Regional Council has been informed that laundry is collected in Chinchilla and Miles and then laundered in Brisbane before being flown back to the region.

3 The objective of local content policy

The LGAQ strongly supports the introduction of Queensland's new *Strong and Sustainable Resource Communities Act 2017* (SSRC Act). The fundamental objective of the SSRC Act is to "ensure that residents of communities in the vicinity of large resource projects benefit from the construction and operation of the projects." As well as prohibiting 100% 'fly-in, fly-out' (FIFO) workforces, the SSRC Act also prohibits resource projects from discriminating against workers from nearby regional communities in recruitment processes and makes it a statutory requirement for major resource projects to undertake a Social Impact Assessment (SIA).

While still a work-in-progress, recently published SIA Guidelines¹ acknowledge that, in relation to local business and industry procurement, the objective of an SIA is:

To ensure project procurement practices:

- *maximise opportunities for competitive and capable local businesses to provide goods and services to the project.*
- *reduce barriers to entry for local businesses where feasible.*

In the same vein, the LGAQ believes that the objective of Federal Government efforts in relation to resource sector support for regional businesses should be to "maximise the opportunity for local and regional businesses to provide goods and services to resource projects, including reducing barriers to entry to project supply chains". Critically, this objective:

- Identifies '**local and regional businesses**' as the target for increasing local content and not businesses located within 'Australia and New Zealand' (as is often the case when resource projects define 'local content').
- Acknowledges that an important aspect of increasing the opportunity for local business to accessing procurement opportunities is '**reducing barriers to entry**'.

Our submission suggests actions that could be taken by the Federal government to meet this objective, beginning with an examination of weaknesses in the current local content governance framework operating in Queensland.

4 Queensland code of practice for local content

To assist resource projects in their efforts to increase their local content and to meet related project conditions, the Queensland Resources Council (QRC) has published and reports against its *Queensland Resources and Energy Sector Code of Practice for Local Content* (the QRC Code). Published in 2013, the aim of the QRC Code is "full, fair and reasonable opportunity for capable local industry to compete for the supply of goods and services for significant projects". The QRC Code should be read in conjunction with the *Implementation Guidelines* and a *Code*

¹ A copy of these guidelines can be found at <https://www.statedevelopment.qld.gov.au/coordinator-general/social-impact-assessment.html>

Effectiveness Report (CER).² A CER has been published annually for period 2013-2016, although the LGAQ notes that no report is available for 2017.

While the LGAQ welcomes the effort that the QRC and the Queensland resources sector has made to increase local content in the resource sector supply chain, we nevertheless have concerns regarding the QRC Code, including that:

- While the QRC Code describes the steps needed to develop and implement a local procurement strategy³, the code does not identify minimum standards that are critical for achieving participation by local SMEs in major project procurement processes. An important example is payment terms, which should be no longer than 20 business days and preferably less. The QRC Code *Implementation Guideline* also identifies some practices that could serve as minimum requirements for local content procurement practices (e.g. how tenders should be publicised, unbundling supply packages and providing all tenderers with the same information); however, the QRC presents these as suggestions only, rather than requirements.
- The definition of 'local industry' is of concern, as it is defined as "*either an Australian or New Zealand business*" (although the Code notes that an individual company may adopt a "*regionally focused*" definition). Companies can therefore have a local procurement strategy that achieves no material benefit for local or regional businesses, but still be considered compliant with the QRC Code.
- The QRC Code is at pains to emphasise it is part of a "*voluntary' self regulatory regime*"; thereby giving the reader the impression that local procurement is a 'nice to do' action, rather than a critical element of corporate performance. Clearly the 'voluntary' nature of the code means that there are no consequences for non-compliance, unless compliance with the code is a condition of the project itself. For example, the Coordinator-General may set compliance with the QRC Code as a project condition as part of a coordinated project approval under the *State Development and Public Works Organisation Act 1971*. Note, however, that even in this instance the specifics of the condition and the company's procurement policy and implementation would determine whether there are beneficial outcomes for local and regional businesses.
- It is not clear if the QRC Code applies only to the project operator, but also to workers' camps, principal contractors and other sub-contractors, all of which can play a large role in a project's supply chain (for example, a company with a catering or cleaning contract for a workers' camp). Any code that does not obligate a company to ensure its principal contractors, sub-contractors and workers' camps comply with local procurement policies is unlikely to be successful.
- Related to the voluntary nature of the QRC Code, is that there is no independent umpire who can assess complaints regarding a company's performance in providing local

² Copies of these document can be found at <https://www.qrc.org.au/policies/local-content/> (as accessed on 30 July 2018).

³ (1) Develop a Local Content Strategy; (2) Utilise complementary capacity and capability-building programs; (3) Monitor and evaluate Local Content Strategy effectiveness.

businesses with a “full, fair and reasonable opportunity” to compete for the supply of goods and services to a project. The possible exception are projects that have a condition regarding local procurement where an appeal might be made to the Coordinator-General to enforce a project condition (although it should be noted that businesses experiencing discriminatory practices may not have the time and money necessary to appeal against their treatment if the appeal process is cumbersome or unclear).

The LGAQ notes that the QRC publishes an annual *Code Effectiveness Report* to assess the sector’s progress in adopting and implementing the code. While the attempt by the QRC to assess the sector’s performance is welcome, the LGAQ nevertheless has concerns regarding these reports, including that:

- Only companies that have indicated that they comply with the QRC code are named in the latest annual reports – companies that do not comply are not reported on, thereby enabling them to opt out of scrutiny.
- Although the report does provide some case studies, the report does not provide a rigorous assessment of the degree to which companies are compliant with the QRC Code, only that a company has ‘adopted’ the code.
- While some statistics are provided on purchases by local government area, there is no assessment of whether there is a causal link between a company’s adoption of the QRC Code and its local content performance. This makes it difficult to know if adoption of the QRC Code is effective in increasing local content procurement or other factors are at work in determining local content procurement outcomes.
- The aggregated statistics make it impossible to understand the performance of individual companies and the factors influencing their decisions, as well as the extent to which local businesses (defined as those within 125 km of a project) are benefiting from a project versus communities that fall within the QRC Code’s definition of local (i.e. businesses located in Australia and New Zealand).
- After reporting annually between 2013-2016, a report was not published in 2017, suggesting a fading commitment to improving local content procurement by the QRC (and perhaps the sector as a whole).

In making our assessment of the QRC Code, the LGAQ acknowledges that there are many Queensland resource companies that are making a genuine effort to increase local content in their supply chains. Moreover, we also acknowledge that the QRC has endeavoured to provide guidance and leadership on this issue for the Queensland resources sector. Nevertheless, we believe that more needs to be done to improve the performance of the resources sector in local content procurement.

5 A framework for action

While the LGAQ acknowledges that a highly regulated local procurement regime may only achieve increased costs rather than increased access by local businesses to resource sector supply chains, we nevertheless believe that a more rigorous approach is required to defining resource sector local content procurement obligations and assessing industry performance. The *'voluntary, self regulatory regime'* currently in place in the Queensland resources sector is insufficient for local businesses and communities to achieve genuine and sustained economic benefits from resource projects operating nearby.

While many resource projects seek to enable access by local businesses to their supply chains, SMEs can incur significant transaction costs in identifying and meeting the procurement requirements of different projects. Moreover, even where businesses can meet procurement requirements, the long payment terms (a period of up to 90 days for some projects) make it untenable for SMEs to supply resource projects, as they cannot survive such a long timeframe between when costs are incurred to supply goods or services and receiving payment.

Together, the high transactions costs for SMEs to access procurement opportunities – along with the unreasonable delay in payments for goods and services received – make it difficult for SMEs in regional areas to tender for resource project work. The LGAQ believes that concerted action needs to be taken to ensure that local businesses can access procurement opportunities in the resources sector, including:

- A national code of conduct that sets minimum local content procurement requirements for the resources sector.
- Independent data collection and analysis to assess industry performance, identify trends in procurement practices and factors impacting these trends.
- Stronger investment in developing SME business capability and capacity to meet supply chain requirements.
- Incentives and other mechanisms that make it easier for resource projects to embed local procurement in resource company business practices and culture and work together regionally to reduce supply chain barriers.
- A Federal body who can:
 - Monitor and facilitate adoption of the national code by the resource sector, and
 - Assess the impact of measures aimed at increasing local content procurement
- Review of the zonal tax rebate system and other measures to provide taxation incentives for people to live and work in regional Australia.

5.1 A National Code of Conduct

As mentioned previously, while the QRC Code sets out some important steps in embedding local content procurement in resource company practices, the LGAQ believes that there is a need to set minimum standards that companies must meet to have effective local content procurement strategies. These requirements should be aimed at reducing barriers to SMEs supplying

resource projects and be set out in a *National Code of Conduct for Local Content Procurement in the Resources Sector* (the National Code).

The Federal Government should lead the development of the National Code with the involvement of the resources sector, business, state and local governments. The purpose of the Code is to set out minimum standards aimed at decreasing barriers to entry for local and regional SMEs trying to enter resource project supply chains. The Code should also set benchmarks for assessing company and industry performance that can be tracked over time.

In considering barriers to entry, one of the most critical is that of payment terms, with a maximum payment term of 20 business days essential. Other standards need to be in place to ensure that unreasonable costs are not imposed on SMEs by projects when tendering to supply goods and services. Areas that need to be examined include early publication of tender opportunities, streamlining tender documentation requirements and ensuring pre-qualification requirements and other standards imposed by resource projects are reasonable and necessary. Many of these issues could be more easily resolved if resource projects worked together regionally to harmonise as far as possible their individual requirements, for example, by having an agreed pre-qualification process.

A second important role of the National Code would be to set data and reporting requirements that will enable an independent assessment of industry performance in enabling local businesses to access supply chain opportunities. One of the difficulties in assessing the local content performance of the resources sector is that information is either anecdotal (that is, SME complaints about individual companies) or that available data is presented in such a way that it is difficult to benchmark the performance of individual companies or understand trends in procurement performance across the sector. Without data, all levels of government will continue to find it difficult to understand what is and is not working when it comes to local content procurement or to separate good and poor performers in the resource sector.

The LGAQ understands that there may be a reluctance amongst some in Parliament to move down the path of a National Code and increased data collection. However, we believe that any increase in costs needs to be weighed against the absolute necessity of ensuring that regional communities benefit economically from nearby resource projects and the reality that, without measuring and monitoring industry performance, substantial improvements in local content procurement will not be achieved.

5.2 Investing in capability and capacity building

Along with changing some of the practices of the resource sector, one of the greatest barriers to entry for local SMEs seeking to access resource project supply chains is that they lack the time, money and expertise necessary to develop the business processes needed to meet project tender requirements. Resource projects can similarly lack the resources and skills to develop local content supply chains and can find it easier to deal with larger, established suppliers rather than going to the effort of working with local suppliers.

One successful Central Queensland initiative has been the C-Res program (Attachment A provides a summary of the program outcomes).⁴ C-Res has two components:

- The **Local Buying Program**, which has been established to support small businesses to engage with BHP, BHP Billiton Mitsubishi Alliance (BMA) and BHP Billiton Mitsui Coal (BMC), Delivered in partnership between BHP and C-Res, the program enables small local businesses to supply goods and services to BHP, BMA and BMC operations via a competitive tender process with reduced payment terms. Businesses also receive direct support from C-Res Business Engagement Advisors and the Program Administration Team. Businesses who employ fewer than 20 full-time equivalent employees and have a significant physical presence near one of BHP's core assets are encouraged to register for the Program.
- The **Local Buying Foundation** (LBF) also forms part of the Local Buying Program (LBP). BMA/BMC make a financial contribution to the LBF for every approved LBP transaction. The aim of the LBF is to enhance the economic sustainability of regions within the operational footprint of BMA and BMC operations in Queensland through the support of programs and initiatives that target local business training and development needs.

The C-Res program provides an example of what can be achieved when an investment is made in developing and bringing together both ends of the supply chain. In this context, the Federal Government could do more to reduce the transaction costs and capability deficits of SMEs so that they can meet the standards required of them to access resource project supply chain opportunities (as with the work of the LBF).⁵

The C-Res success story

Feedback from our council members is that this program has been important in both building the capability of SMEs to supply to BHP, BMA and BMC projects, as well as providing a streamlined mechanism for projects to incorporate SMEs into their supply chains. Data provided shows growth in local content for the LBP of \$11.98m in FY2013 to \$216.15m in FY18 (total of \$216,153,677m since the inception of the program). While further analysis is required to understand all the factors impacting on this growth, this data indicates that the combined LBR/LBF framework has been instrumental in improving the local content performance of these companies.

⁴ Further information can be found at: <https://c-res.com.au/>

⁵ The LGAQ is aware that the Industry Capability Network (ICN) also acts as an intermediary between SMEs and resource companies, however it is difficult to evaluate its performance as most of the available evidence relates to case studies rather than performance against specific measures. In addition, ICN works across several industries so it is difficult to disaggregate resource sector performance.

The LGAQ believes that the Federal Government could also better support resource companies seeking to build their local supply chains, either through grants and tax rebates to companies and through funding to support industry capability development measures (such as C-Res).

5.3 Workforce attraction and retention

While the terms of reference do not identify workforce attraction and retention as a factor in developing the competitiveness and capability of SMEs in regional Australia, it is the experience of Queensland's councils that, without a strong workforce, it is difficult for SMEs to be sustainable. This is in part because of the need to attract and retain suitably qualified and experienced workers, but also because the community itself can sometimes provide another source of business income for some businesses (for example, supermarkets, bakeries and other food service businesses). Businesses can only be sustained if they exist in communities that have a thriving community life and – fundamentally – this requires people (and especially families) to live in that community.

In Queensland, the introduction of the SSRC Act will assist workforce attraction and retention in resource communities, however further measures at the Federal level are required to help business and communities attract and retain workers, including tax concessions and subsidies for living costs such as regional airfares.

The LGAQ believes that tax concessions for remote area residents, and for SMEs, remain valid mechanisms for encouraging increased regional economic activity. This is because the costs of living in regional areas are higher due to: higher transportation costs for people, goods and services; long distances to access essential services such as health care; and small market size and economies of scale.

In November 2011, the Council of Mayors Darling Downs and South-West Queensland published the paper, *The Case for Reviewing Income Tax Zone Rebates*. This report found that:

- Zone rebates provide partial compensation for the reduction in the competitiveness of remote-area export industries which has occurred as an unintended side-effect of the exchange rate coupled with a heavy reliance on monetary policy to counter inflation.
- Zone rebates assist in the provision of local infrastructure and support services in remote areas, which is important for export industries, for defence and for the future of remote indigenous communities.
- Zone rebates provide compensation for the higher prices of necessities in remote areas, particularly food and partial compensation for the costs of accessing government services from remote areas (both of which are especially important for low income earners or those in receipt of social security repayments).

There is a related case for subsidising services delivered to residents (and resident businesses) in remote and regional communities, such as passenger air services and other long-distance travel modes. In this instance, concessions and subsidies provide compensation for the additional costs associated with living and operating in regional areas, providing the benefit of

these subsidies accrues to individual residents who live, and businesses that are based, in remote and regional areas.

At the same time, as part of their regulatory responsibilities, governments have a role in negotiating with service providers to regions, such as regional airlines, to ensure the provision of adequate levels of service (schedule frequency, inter-connectivity with other services/modes) and appropriate prices are available to residents and regional businesses.

These issues are discussed in greater detail in the LGAQ's submission to the Senate Standing Committee on Rural and Regional Affairs and Transport *Inquiry into the operation, regulation and funding of air route service delivery to rural, regional and remote communities*⁶. This and other issues related to the barriers and opportunities for residents living in regional Australia are discussed in the LGAQ's submission to the Senate Economics Reference Committee *Inquiry into the indicators of, and impact of, regional inequality in Australia*⁷.

The LGAQ believes that issues surrounding the competitiveness and capability of SMEs supplying resource project supply chains cannot be divorced from the need to ensure that community life is sustained by having people live in a community. For this reason, the LGAQ believes it is important for the Federal Government to examine holistically the issue of increasing incentives and support for people to live and work in regional Australia, including through improved zone tax rebates and other measures.

6 What the LGAQ seeks

The LGAQ seeks:

1. That the policy objective of the Federal Government is to “*maximise the opportunity for local and regional businesses to provide goods and services to resource projects, including reducing barriers to entry to project supply chains*”.
2. That by 1 January 2020, Australia has a *National Code of Conduct for Resource Project Local Content Procurement* and that this code is developed with the participation of the resources sector, business and state and local governments.
3. That resource projects are required to provide data to an appropriate Federal Government agency regarding their procurement practices and that this agency (or other appropriate body) is resourced to analyse this data to determine trends in procurement practices and factors impacting these trends.
4. That an independent review of the resource sector's procurement practices and performance is undertaken by 31 December 2024, with this review to include an assessment of the need for additional regulatory or other measures to accelerate improvements in local procurement practices by the resources sector.

⁶ Submission 149

⁷ Submission 115

5. That the Federal Government reduce transaction costs and capability deficits for local SMEs seeking to access resource project supply chains through increased investment in grants, tax rebates and business mentoring.
6. That the Federal Government reduce transaction costs and capability deficits in local procurement in the resource sector through grants and tax rebates to companies and through funding to support industry capability development measures (such as C-Res).
7. That the Federal Government increase the competitiveness and capability of SMEs in regional communities by increasing incentives and support for people to live and work in regional Australia, including through improved zone tax rebates and other measures.

7 Conclusion

The LGAQ appreciates the Committee's commitment to examining how the resource sector can better support businesses in regional economies. Our submission identifies improvements that could be made in the governance framework for local content procurement in the resource sector, as well as opportunities to build on existing approaches that have proven to work well. Although realising a more robust governance framework may take time realise, immediate gains could be made through stronger investments in building the capability of regional businesses to access procurement opportunities and providing incentives to resource projects that support their efforts to build local supply chains.

If you would like further information on this submission, please contact Kirsten Pietzner, Lead – Resources & Regional Development