



# INVESTING IN VICTORIA'S FUTURE

APRIL 2012

Ai Group Pre 2012-13 Budget Submission to the Victorian Government

## **Australian Industry Group Pre 2012-13 Budget Submission to the Victorian Government**

### **Executive summary**

Against the backdrop of heightened uncertainty in the global economic outlook and a slowing Australian economy, the 2012-13 Victorian Budget presents an opportunity for the Victorian Government to fundamentally lift the growth potential of the Victorian economy by investing wisely in productivity enhancing initiatives for Victorian businesses as well as to formulate well-targeted policies that will assist businesses seize opportunities globally, especially in Asia.

The Australian Industry Group (Ai Group) urges the Victorian Government to adopt a longer-term approach towards economic development. The Victorian Government needs to put in place taxation, funding, education and training and other policy initiatives that would assist current and future Victorian businesses develop and gain market share domestically and internationally.

A key challenge for the Victorian Government is to be able to fund these investments amid weaker revenue inflows. The Government could fund recurrent spending proposals through improved public sector efficiency and the reprioritisation of spending in favour of the modest productivity enhancing expenditures proposed in this submission. The Ai Group also recommends the Victorian Government adopt a greater use of debt financing for capital spending, such as infrastructure, as the debt level of the Government remains relatively low.

Investments targeted at improving the fundamentals of the Victorian economy will generate economic growth and revenue, which will relieve budgetary pressures over time.

The Ai Group emphasises that the Victorian Government should always remain fiscally responsible. However, fiscal prudence should be interpreted strategically so that the longer-term fiscal benefits of measures to boost business competitiveness and the capacity of the Victorian economy are fully taken into account.

Victorian businesses face significant headwinds and the business outlook is highly uncertain, with significant downside risks. Exporters are reeling from the impact of the strong Australian dollar and many businesses face intense competition from cheaper import substitutes. In addition, the cost of doing business throughout Australia is expected to increase further following the carbon tax. Adding to these challenges, strains in the Euro area economy and a soft American economy are starting to slow growth in Australia's major trading partners in East Asia.

Many Victorian businesses are doing it tough, and they are looking to the Victorian Government's firm leadership in guiding and supporting the Victorian economy.

## **Introduction**

The structural weakness in the major developed economies, including the US, Japan and parts of Europe, in the form of significant financial and fiscal imbalances will take many years to resolve. Therefore, much of the next decade is likely to be characterised by slow rates of growth in the major developed economies, with higher macroeconomic volatility. In contrast, economic growth in Asia led by China is widely anticipated to remain robust, lifting the prominence of Asia in the global economy.

It is therefore imperative that Victoria secures its economic future by increasing its trade links with Asia and investing more in emerging strategic industries in the region, while continuing its economic engagement with the developed economies in the West through trade, finance, tourism and technological transfers.

The 2012-13 Victorian Budget presents an opportunity for the Victorian Government to fundamentally lift the growth potential of the Victorian economy by investing wisely in productivity enhancing initiatives for Victorian businesses as well as to formulate well-targeted policies that will assist businesses seize opportunities globally, especially in Asia.

As analysed in the Ai Group's Pre 2011-12 Budget Submission, the cost competitiveness of the Victorian economy has deteriorated relative to the other states, reflecting strong growth in labour costs and weak labour productivity growth. The Ai Group urges the Victorian Government to invest more to lift productivity in the Victorian economy, as this would be crucial for Victorian businesses to compete internationally, especially in Asia, given heightened uncertainty in the global economic outlook.

That Victorian businesses are weighed by dimmed global economic prospects is reflected in the weakness in the seasonally adjusted Australian Industry Group – PwC Australian Performance of Manufacturing Index (Australian PMI®) for Victoria, which rose 3.1 points to 48.1 in March 2012, marking the ninth consecutive month that the Victorian sub-index has remained below the 50-point level separating expansion from contraction in Victorian manufacturing activity (Chart 1).

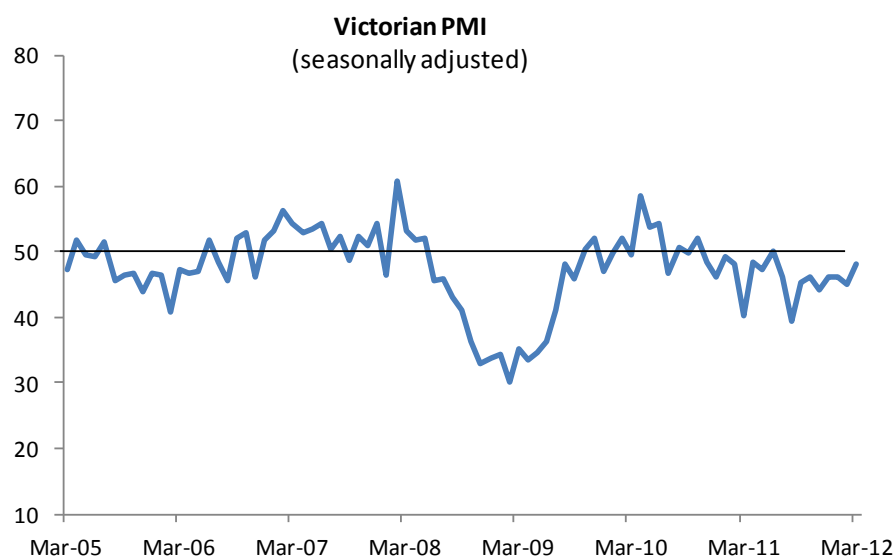
The Ai Group urges the Victorian Government to adopt a longer-term approach towards economic development, putting in place taxation, funding, education and training and other policy initiatives that would assist current and future Victorian businesses develop and gain market share domestically and internationally.

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**Chart 1**



Source: Ai Group data

## State taxation

Businesses in Victoria are inhibited by a State tax structure that is inefficient and does not promote international competitiveness. The case for State tax reform is made clearly in Australia's Future Tax System Review ('the Henry Tax Review').

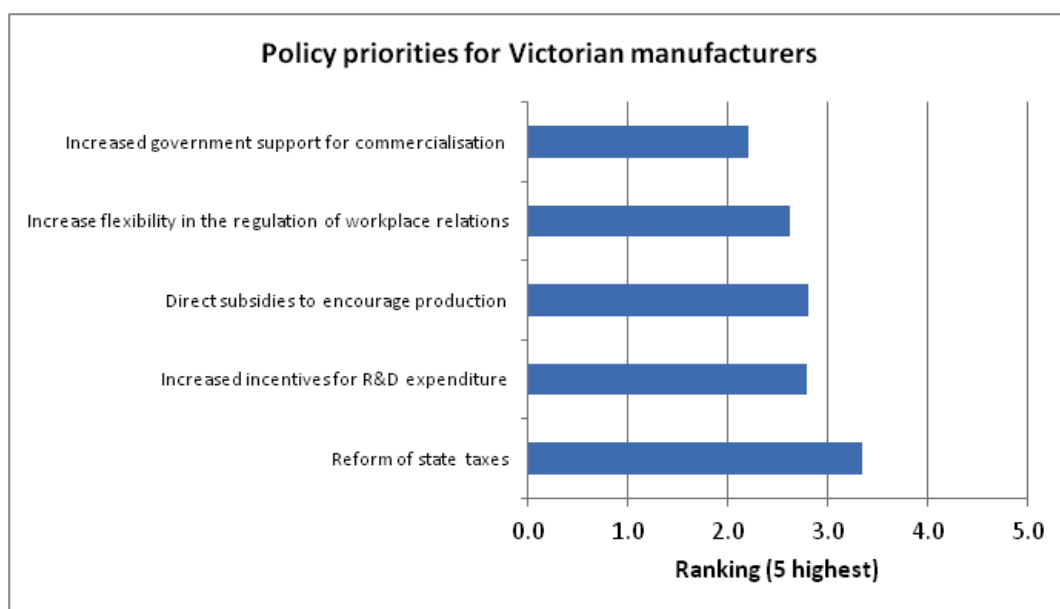
The Ai Group recommends, as a matter of urgency, that the Victorian Government gives consideration to the State tax reforms outlined in the Henry Tax Review and that the Victorian Government work with the Australian Government to implement the State tax reform recommendations in the Henry Tax Review. These will ensure that Victoria has an efficient and fair tax system that promotes economic growth and high performing enterprises operating in an internationally competitive Victoria. Victoria's recent lagging productivity performance and longer term challenges associated with ageing of the population mean that the longer Victoria postpones genuine and comprehensive tax reform, the more difficult the task of promoting long-term economic growth across all sectors for the wellbeing of all Victorians.

The State based tax reforms proposed in the Henry Tax Review are not easily implementable in the short-term and are likely to require broader reforms to fiscal federalism and revenue sharing

allocations between the States through the Commonwealth Grants Commission. Nonetheless, the Ai Group recommends that the Victorian Government engage the Australian Government and other States to initiate an agreed timetable through the Council of Australian Governments (COAG) to implement the Henry Tax Review recommendations with respect to reform and removal of State based inefficient taxes.

Victorian manufacturers lend support to the importance of State tax reform. The Ai Group Manufacturing Industry Survey asked respondents to rank the five areas of government policy of most potential benefit to their own manufacturing business (potentially providing some insight to firm level strategy priorities).<sup>1</sup>

**Chart 2**



Source: Ai Group data.

Chart 2 presents the top 5 priorities for Victorian manufacturing businesses in areas where the State Government has some area of direct influence. The highest ranked priority is State tax reform with a ranking of 3.3 out of a possible maximum of 5.

### **Innovation and R&D expenditure**

Innovation is critical for the Victorian economy and its businesses. An important aspect of the innovation process is research and development. Manufacturing businesses value the importance of research and development as part of their business growth strategies to become high performing enterprises that are internationally competitive. For example, according to the Ai Group

<sup>1</sup> This survey data was collected as part of an upcoming Ai Group report into Australia's manufacturing industry. In January 2011, Ai Group undertook a comprehensive survey of Australian manufacturing businesses. The findings of the survey are based on the responses of CEOs from 419 businesses. The businesses employ around 43,000 full time equivalent staff and turn over a total of \$17 billion.

Manufacturing Industry Survey, the four most important growth strategies for businesses are related to innovation; capital investment; improving business structures and great integration into global markets (Table 1). Each of these strategies will involve some form of research & development, whether in terms of designing new products or revising internal business practices to become more productive.

Approximately 7 per cent of manufacturing sector respondents to the Ai Group Manufacturing Industry Survey across Australia rated increased incentives for business expenditure on R&D expenditure as a policy providing the highest benefit to their own business.

**Table 1: Top manufacturing business growth strategies over the next 3 years**

|                    |  |
|--------------------|--|
| Innovation         | Improve efficiency of production processes; introduce new products and services; improve supply chain management; introduction of new technology   |
| Capital investment | Raise spending on skills development; greater (physical) capital investment; greater spend on R&D  |
| Business structure | Outsource production to other domestic businesses; concentrate on fewer products and services; alliances/mergers & acquisitions; vertical integration; establish new distribution channels |
| Globalisation      | Increased sourcing of labour from overseas; outsource production to businesses offshore; develop export markets  |

Source: Ai Group data.

## Regulatory compliance and costs

The Ai Group has recently surveyed business CEOs regarding the impact of business regulation on their operations.<sup>2</sup> The survey shows that despite all the efforts on regulatory reform by governments in recent years, the compliance burden associated with business regulation is rising, not falling. The average Australian business deals with 8 regulators in a given year and spends close to 4 per cent of their annual expenses complying with regulatory requirements. Around 20 per cent of these regulatory requirements are deemed by business to be unnecessary.

The survey results for Victoria indicate that Victorian businesses spend an average of 12 hours per week complying with regulatory requirements and spend 5.6 per cent of their annual expenses on outsourcing costs and fees and charges related to government regulation. While these results are better than the national average, close to 70 per cent of Australian businesses report that the direct costs of business regulation has increased over the past three years, and that they expect regulation to increase further over the next three years.

<sup>2</sup> A copy of the survey report, *Business Regulation*, is available at [www.aigroup.com.au/policy/reports/](http://www.aigroup.com.au/policy/reports/)

Victoria has the highest proportion of businesses that reported to the Ai Group survey that business regulation is a barrier to trade (62 per cent of respondents). Occupational health and safety (OHS), workers compensation and other employee related regulations (such as superannuation) are the most time consuming areas of business regulation for Victorian businesses.

There are a number of actions the Victorian Government can take to address business regulatory compliance costs:

- Reduce the frequency of business regulatory reporting requirements to a minimum and establish reliable electronic and web-based regulatory reporting for businesses.
- Minimise the required number of approvals needed for projects and execute approval processes concurrently.
- Integrate and rationalise approvals for all projects by creating an approvals committee with the authority to issue all relevant approvals. The average Victorian business deals with up to eight regulatory authorities in any given year.
- Work with local government to reduce duplication of regulation across local government boundaries (planning regulations for example) and across State borders (for example the payroll tax harmonisation process through COAG is not yet operational).
- Review the Victorian Government programs related to reducing the regulatory burden, including ensuring methodologies for measuring the impacts of their regulatory reform initiatives are sound and more importantly, measure whether there has been a net decline in the regulatory burden being imposed on businesses. The Victorian Department of Treasury and Finance has produced some impressive monetary estimates of the regulatory burden reductions achieved but responses to the Ai Group survey on business regulation suggests these have not translated to tangible benefits 'on the ground' for many businesses, particularly small businesses.
- The Victorian Government also needs to consider how regulatory agencies interact with the business community with respect to regulatory changes and proposals. Consultation is crucial and should continue but governments need to invest in more efficient and less onerous consultation processes which do not impose an additional burden on businesses. Incorporating a 'consultation' regulation impact statement in the regulation making process as well as monitoring and reporting on the quality of consultation are worth considering at all levels of government.
- Victoria could lead the way in having the most efficient and best practice regulatory agencies, in turn reducing the burden on all businesses that interact with these agencies. There is considerable merit in the Australian National Audit Office Better Practice Guide to Administering Regulation being adopted by Victorian regulators at all levels of government and regulatory agencies undergoing regular 'health checks' to ensure these agencies are efficiently implementing regulations and not imposing an additional and unnecessary burden on

businesses. This regular review of the regulatory performance of the State's regulatory agencies could be conducted by the Victorian Competition and Efficiency Commission (VCEC).

- The Victorian Government's planning policy must provide certainty to industry. Companies must be encouraged to refurbish, redevelop and to develop greenfield sites, confident that they will be in an area and an environment that takes a positive approach to their proximity. The encroaching of residential land onto industrial areas must be discouraged to ensure that long-term investment can be undertaken and fully utilised over a considerable period. Furthermore, the Government must ensure that tracts of land are set aside for industry in general and manufacturing in particular. The planning process for this to occur is essential, especially taking account of the transportation options available now in and around metropolitan Melbourne. The use of road and rail infrastructure could be encouraged through appropriate planning.
- The Ai Group note that the Victorian Government has completed its review of the Victorian Climate Change Act, and commends the Victorian Government's decision to remove the 20 per cent Victorian carbon emissions 2020 target given that the Federal Government has already set a 5 per cent target under the Clean Energy Act 2011. The Ai Group agrees that the Victorian Government needs to do its fair share towards reducing Australia's overall greenhouse gas emissions, but it should not add uncertainty and unnecessary economic burden on Victorian households and businesses, especially given the highly uncertain global economic outlook.
- The Ai Group commends the Victorian Government turning its efforts to continue elements of the Victorian Climate Change Act that are complementary to national carbon emissions reduction action, including: preparing a four-year Climate Change Adaptation Plan; developing guidelines for government business and community on considering climate change in decision-making; and supporting Victorians in offsetting their emissions and participating in the Carbon Farming Initiative.
- Businesses operating in Victoria report energy, emissions and other information under a range of State and Federal programs. Many with operations in multiple States face a number of inconsistent reporting regimes. Victoria should continue to lead efforts to reduce the burden of inconsistent reporting, particularly by advocating for, and facilitating, a single national online reporting portal.

## **Government purchasing policy**

The Ai Group believes Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. There are, however, a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers. These barriers include, for example, an undue emphasis on upfront costs rather than whole of life costs in public sector procurement and an uneven weighting given to conformity with standards.



The Ai Group considers that whole of life costs should include costs incurred from after-sales services, regular maintenance and servicing, parts replacements and any machine down time. If these services were provided by Australian businesses rather than overseas based businesses the costs could be lower because services could be rendered more quickly and replacement parts delivered more promptly.

The Ai Group urges the Victorian Government to collaborate with other States to formulate local procurement policies that could bring mutual benefits to more Australian manufacturers, such as assisting a manufacturer to broaden its customer base across States.

The Ai Group recommends government agencies and major contractors implement an approach that shows a commitment to the following five procurement principles:

- **Value for Money:** Value for money looks beyond “least cost” and brings cost-benefit approach that considers quality, after sales servicing and maintenance and ongoing supplier relationships.
- **Clarity, Transparency and Improvement of Processes:** procurement processes should be clear and transparent and be subject to ongoing improvement to reduce costs of tendering and access for domestic suppliers, particularly small and medium sized enterprises.
- **Full and Fair Access:** Procurement processes should ensure local suppliers have full and fair access to supply opportunities under direct government contracts and with prime contractors for major projects. This includes consistency in relation to conformity with Australian standards and no preferential treatment of offshore suppliers.
- **Full Opportunities for Local Suppliers:** Australian based suppliers should have full opportunity to compete for the provision of goods and services under government contracts both directly and indirectly through supply to prime contractors. For major projects, prime contractors and licence holders should ensure that local suppliers have full and fair access to sub-contracting and supply arrangements.
- **Supporting Industry through Effective Planning and Communication:** Large government purchasing activities and major project plans should be developed in a transparent way to ensure local industry is able to invest sufficiently to participate in major tenders.

## **Infrastructure investment**

The Ai Group believes that the success of the manufacturing industry and the Victorian economy as a whole is dependent on the provision of high-quality infrastructure.

The Ai Group recommends that Governments work together to develop a new national infrastructure strategy that: provides a clear strategic framework for planning to meet present needs and support future directions; maintains and reinforces a rational and transparent process to identify the highest-value infrastructure options; directs adequate and appropriate investment

towards those options; ensures timely delivery; and ensures efficient use of the resulting assets. This framework should include:

- The Victorian Government could consider setting up an Infrastructure Victoria agency to better coordinate the planning, prioritisation and execution of infrastructure projects throughout the State.
- The Victorian Government should consider establishing and formalising a community and business consultation process, where robust debates on the prioritisation of Victorian infrastructure projects could be conducted.
- The Ai Group urges the Victorian Government to regularly update and inform the industry about the level of priority attached to major infrastructure projects throughout the State, as this will greatly facilitate the planning processes in businesses and lift productivity throughout the Victorian economy.
- Bedding down the expanded role for Infrastructure Australia, announced in the 2011-12 Federal Budget, in the assessment and prioritisation of nationally strategically important infrastructure projects, including providing advice to governments on the appropriateness of funding options for different projects.
- Further development of structured public-private partnership policies that can lower the risks faced by private investors thus attracting more private sector investments while reducing upfront costs to the public.
- Transport infrastructure reform to help address congestion: for example, better provision of real-time information by governments about transport options and network conditions; investment in new and smarter transport infrastructure to keep up with population pressures; and pricing reform to improve utilisation and efficiency in the use of transport infrastructure.
- Institute arrangements to ensure that contractors give full and fair consideration to local businesses when awarding jobs. Greater local procurement would also serve the larger purpose of creating jobs and lifting morale in the local communities.

The Ai Group commends the Victorian Government in constructing the Regional Rail Link, as this is an important infrastructure project that would help improve the connectivity between regional economies and Melbourne, alleviate overcrowding in metropolitan trains and lift the human traffic in regional towns and enhance business opportunities for businesses in the regional areas and throughout Victoria more generally.

Another example of important infrastructure work committed by the Victorian Government is the proposed improved East West Link, which would remove traffic from Melbourne's inner-arterial roads and link industry in Melbourne's north, east and west. The Ai Group urges the Victorian Government to secure sufficient funding to complete this project as soon as possible.

An infrastructure project that the Victorian Government could explore is the further development of the Port of Hastings to complement the Port of Melbourne, which is facing increasing strains on its capacity due to an increasing volume of container traffic. This project would enable Melbourne to reap the full advantages of enhanced trade links with the booming Asian economies. Suggestions should also be sought for other port opportunities which may be available to the State.

The challenge for the Victorian Government is to continue investing significantly in infrastructure while exercising fiscal prudence in funding the investments. This will be especially challenging given the anticipated decline in GST revenue allocated to Victoria by the Commonwealth Government.

The Ai Group urges the Victorian Government to adopt a long term view in deciding on infrastructure investments. An important motivation for the Victorian Government to increase investments in infrastructure is that infrastructure investments yield economic benefits for current and future generations of Victorians.

Since infrastructure investments yield economic benefits for future generations of Victorians, the Ai Group proposes that the Victorian Government consider funding infrastructure investments with increased Government borrowing, such as in the form of infrastructure bonds. This government debt could have longer repayment periods, with the debt burden shared across current and future generations of Victorians.

The Ai Group stresses that borrowed funds must be invested wisely in productive infrastructure projects.

### **Transport industry policies**

The Ai Group recommends the new Victorian Government increase investments in the rail, tram and bus industries, as part of its overall plans to invest in Victoria's infrastructure. Such investments, which could include purchases of more trams, buses and trains as well as improvements to the tram, train and bus networks, would benefit local manufacturers, improve Victoria's public transportation network, contribute to environmental protection and create more jobs.

The Ai Group notes that the Victorian Government has committed to the purchase of 40 new trains for the Victorian train network, and strongly urges the Government to expedite this purchase. This is a long term investment in the Victorian economy, and the sooner the purchase is completed the earlier will the positive spillover impacts on local manufacturers and rail network materialise.

#### ***Encourage development of the rail, tram and bus industry supply chain networks***

The Ai Group strongly suggests that the Victorian Government undertake a firm commitment to upcoming infrastructure investments, even if upfront investments cannot be made due to funding constraints. With no sudden stops-starts and clustering in infrastructure investments, businesses that support the rail, tram and bus industries would find it easier to plan and invest in capital for the future. Such clarity in the Victorian Government's infrastructure investment plans will greatly help businesses plan ahead, and facilitate development of competitive rail, tram and bus industry supply chain networks.

In this regard, the Victorian Government should continue to support the Transport Infrastructure Manufacturing Scheme (TIMS) to encourage businesses to supply to rail, tram and bus manufacturers. As part of the TIMS process, Victorian suppliers are being encouraged to undertake an accreditation process to ensure the products supplied to rail, tram and bus companies meet predetermined international industry standards, and assist in the procurement process in the industry. Such accreditation is a vital part of equipping companies to become involved in higher performance local manufacturing and in building capabilities that are fundamental to taking advantage of export opportunities.

#### ***Facilitate demand management***

The Victorian Government should leverage its position as the leader in developing the rail, tram and bus industries, and continue to collaborate with other States, particularly in assisting demand management of rolling stock. In order to encourage rolling stock manufacture in Victoria and in other Australian States, all State Governments must be encouraged to have a longer term outlook on the purchase of infrastructure. For example, a decade-long demand cycle would enable companies to confidently invest in capital equipment, knowing that significant purchases will be worthwhile over a longer period. Certainty in the market could create a relatively large manufacturing sector in a number of States.

The Victorian Government's commitment to the rail, tram and bus industries has increased considerably over the past few years and the Ai Group believes that should continue. Current efforts revolve around developing and maintaining supply chains and ensuring local companies have the opportunity to be involved with the larger manufacturers. Government and industry should build on the experience with similar programs in other high-tech manufacturing sectors and develop a new approach to ensure a long-term outlook for the industry.

#### ***Encourage consolidation in the rail industry***

The Ai Group notes that lessons from the car and car parts industry would suggest consideration must be given to smaller businesses that support the rail industry review their long-term future. In the medium-term, this could lead to a consolidation in the industry and put the businesses on a firmer footing to overcome future economic challenges.

#### ***Promote collaboration among businesses in defence, rail and vehicle manufacturing industries***

Also, the Ai Group recommends that the Victorian Government encourage businesses to move between the defence, rail and motor industries, should tough conditions persist in any one industry. This is manageable given the complementarities in the product design of such businesses. The Victorian Government could facilitate the technological transfer across industries by funding appropriate training courses, targeting knowledge and technological transfer.

### ***Help alleviate shortage of skilled labour in industry***

Many Victorian businesses cite the shortage of skilled labour as an important inhibitor to their businesses. The Ai Group urges the Victorian Government to step up its efforts in the training and retraining of the Victorian workforce to alleviate this problem.

The defence industry sector in Victoria provides critical support to the Australian Defence Force through the provision of new and upgraded equipment, and through-life support. Victorian-based businesses work in all the major sectors of the defence industry, including aerospace, armoured vehicle and ship construction and sustainment. In partnership with the Defence Science and Technology Organisation, many businesses contribute substantial research and development input to high-tech systems and equipment, with a focus on reducing risk associated with complex weapon systems integrations. Many companies are experiencing skills shortages, particularly for systems engineers and highly skilled technicians, including in the aerospace sector. Further government support is required to assist industry to address the current skills challenge.

Some small and medium sized enterprises (SME) in the defence industry have had profit margins significantly reduced and growth inhibited by the strong Australian dollar. This has led to layoffs in the industry. In light of these developments, the Ai Group proposes that the Victorian Government engages in discussions with businesses in the defence industry to understand the challenges they face and increase targeted financial assistance to the businesses to help them overcome the tough business conditions facing the industry.

### ***Assistance to the automobile industry***

The Ai Group notes the co-investment that the Victorian Government has made together with the South Australian and Federal Governments in the car manufacturer, GM Holden. The Ai Group regards this as an important investment to encourage the development of manufacturing in Victoria. This investment will enable research and development capacity to remain in Victoria and additional contract work to be undertaken in Victoria for the GM Holden global supply chain. The investment will assist Victoria's automotive supply chain manufacturers to expand into global markets and diversify into other major manufacturing sectors.

## **Workforce and business management**

A particular challenge in the midst of the re-emergence of skills shortages and workforce needs relates to workforce training. Evidence indicates that smaller businesses make less use of the training system across Australia. Moreover, smaller businesses have poorer apprentice completion rates than larger companies. Reasons for these outcomes for smaller businesses include:

- They may be less aware of training services available to meet their skill needs.

- Lack of time and resources to investigate options and a perception that ongoing bureaucratic demands and time needed to support apprentices will be onerous.
- Beliefs that training services may be too expensive or they may not be able to source highly specialised training.

The Victorian Government has recognised the special needs of smaller businesses in accessing the training and apprenticeship systems by implementing the Skills for Growth and the Apprenticeship Support Officer program. The Skills for Growth program funds free, independent skills advice to smaller businesses with fewer than 200 employees. The Skills for Growth program has proved popular with the program achieving higher than anticipated results. The Apprenticeship Support Officer program provides pastoral support for all young apprentices, aged 15 to 24, in the first year of their apprenticeship program.

There are a number of other actions the Victorian Government can take to improve small business access and participation in workforce:

- There is a significant opportunity to refocus and expand the provision of skilling advice through a specialist Manufacturing Skills for Growth program, a discrete component of the Skills for Growth program, which has been well supported by manufacturing businesses.
- The Victorian Government could consider re-introducing programs that have operated in the past that were designed to address the difficulties small businesses can have in identifying their skills needs and accessing suitable training. Examples are Industry Skills Advisers and Industry Liaison Officers. These programs no longer operate.
- *Consideration of the From Here to Best Practice* program implemented in New South Wales (NSW). This program between the NSW industry department and Enterprise Connect was designed to provide a comprehensive approach to staffing and leadership development in small to medium manufacturing organisations.

## Online business management

The Ai Group believes that utilisation of online web presence for small business coupled with the rollout of national infrastructure including the National Broadband Network (NBN) and fourth-generation wireless services provides a critical platform for business to harness productivity improvements, and turn new ideas into innovative products and services.

The Ai Group proposes the future delivery of a coordinated and consistent business program which is founded on achievement of net benefits to the business community in their efforts to increase their presence via traditional linear website services as well as social networking avenues for business purposes.

The Ai Group acknowledges there is a lack of well-integrated and up-to-date information on the potential economic and business benefits of online web presence for business. The broader national

and State level productivity agendas have had little to no substantive focus on utilisation of either linear website services or the more complex social networking strategies. Businesses need to be made aware of all the potential benefits that the NBN could bring to their operations.

Victorian businesses require access to a program that provides a substantial opportunity for businesses to gain the advice, expertise and ongoing confidence to invest in new products and services that may be delivered online. The businesses need to receive sufficient training to fully understand and seize the opportunities offered by the NBN.

The potential program should not purely be a macroeconomic examination of businesses having a web site: it should be about finding, describing and seizing opportunities that ubiquitous broadband presents for small business to raise productivity and boost the bottom line.

The key aspects of any business are asset management, operational management, revenue generation and business model innovation. The Ai Group envisages that beyond just being online and having a web site, performance measures can be incorporated that benchmark the improvement in key aspects of the business, particularly business model innovation.

With regard to social media, the Ai Group has been experiencing a higher demand for training in this area from businesses wishing to build their marketing strategies.

## **Supporting exporters**

The Ai Group commends the Victorian Government's efforts in supporting exporters venture into emerging markets, and urges the Government to continue and increase efforts in assisting exporters.

Given the current challenging environment for exporters with the high exchange rate, difficulties in obtaining credit and uncertainty regarding global economic growth, particularly from Europe, the Victorian Government should proactively assist exporters by:

- Fund more overseas trade missions for businesses, particularly smaller businesses that want to expand into overseas markets, to participate and to facilitate co-funding exporters' businesses trips overseas to establish and/or increase contacts with overseas business partners. Such networks would help to increase the chances of smaller Victorian businesses being able to successfully break into new overseas markets. The Victorian Government should develop an export target and a process to achieve it.
- The Ai Group urges the Victorian Government ensure a continuation of targeted assistance for business participation in trade missions.
- The Victorian food and beverage manufacturing industry includes many smaller and regionally based manufacturers. The industry has performed well in recent times, but they face increasingly challenging business conditions in light of the strong Australian dollar, cheaper import substitutes and slowing domestic demand. This is a promising area for the Victorian

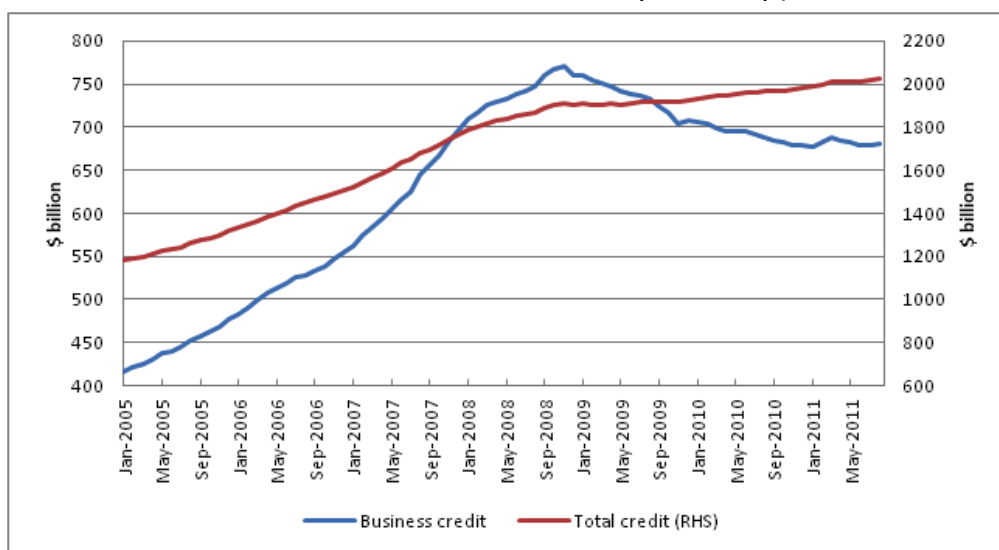
manufacturing sector, especially given the high food and safety standards in Victoria and throughout Australia. Victoria has a competitive advantage in this area, and Victorian exports of food and beverage products could be boosted with more assistance from the Victorian Government. The Ai Group urges the Victorian Government undertake a comprehensive strategic review of the Victorian food industry to understand the challenges and opportunities faced by the industry, and to inform the formulation of well targeted measures to facilitate the development of the industry.

- Rebalance export support programs to provide effective support for small businesses that develop and export intellectual property and services. The ongoing “information revolution” and the development of the National Broadband Network provide the context in which Victoria is already developing world-leading knowledge, services and technologies that do not fit comfortably in the established “product” oriented export facilitation programs. A vibrant, export oriented industry focused on advancing and exploiting the information revolution will become a major earner and a major attractor of high value individuals to Victoria.

### Barriers to accessing finance

The global financial crisis (GFC) resulted in a tightening of finance in the form of business credit across the global domestic economies. Responses from the Ai Group’s business advisors indicate that many member businesses have not fully recovered from the GFC and are surviving on a shorter term basis rather than focussing on long-term planning. Credit remains relatively costly and difficult to obtain for many businesses, particularly smaller businesses and those that have not benefitted directly from the resources boom. This is illustrated by Chart 3 which shows that over the last two years credit to business in Australia has declined from its pre-GFC peak, while total credit (reflecting credit for owner-occupied housing, investor housing and other personal credit) continues to grow.

**Chart 3: Business and total credit, Australia, \$ billion**



Source: Reserve Bank of Australia. Data is seasonally adjusted.



A recent survey of the manufacturing sector by the Ai Group suggests that 23 per cent of business respondents from Victoria (approximately 43 respondents) were adversely impacted by difficulty accessing external finance over the last 3 years.<sup>3</sup> Of the 43 respondents, 70 per cent (or 30 respondents) are smaller businesses with an annual turnover of \$15 million or less.

The Ai Group notes that for businesses that manage to obtain bank funding have to pay interest rates that are significantly higher than the mortgage interest rates. Businesses have said that there is limited access to bank funding as banks have been asking for more security, a problem especially for manufacturers.

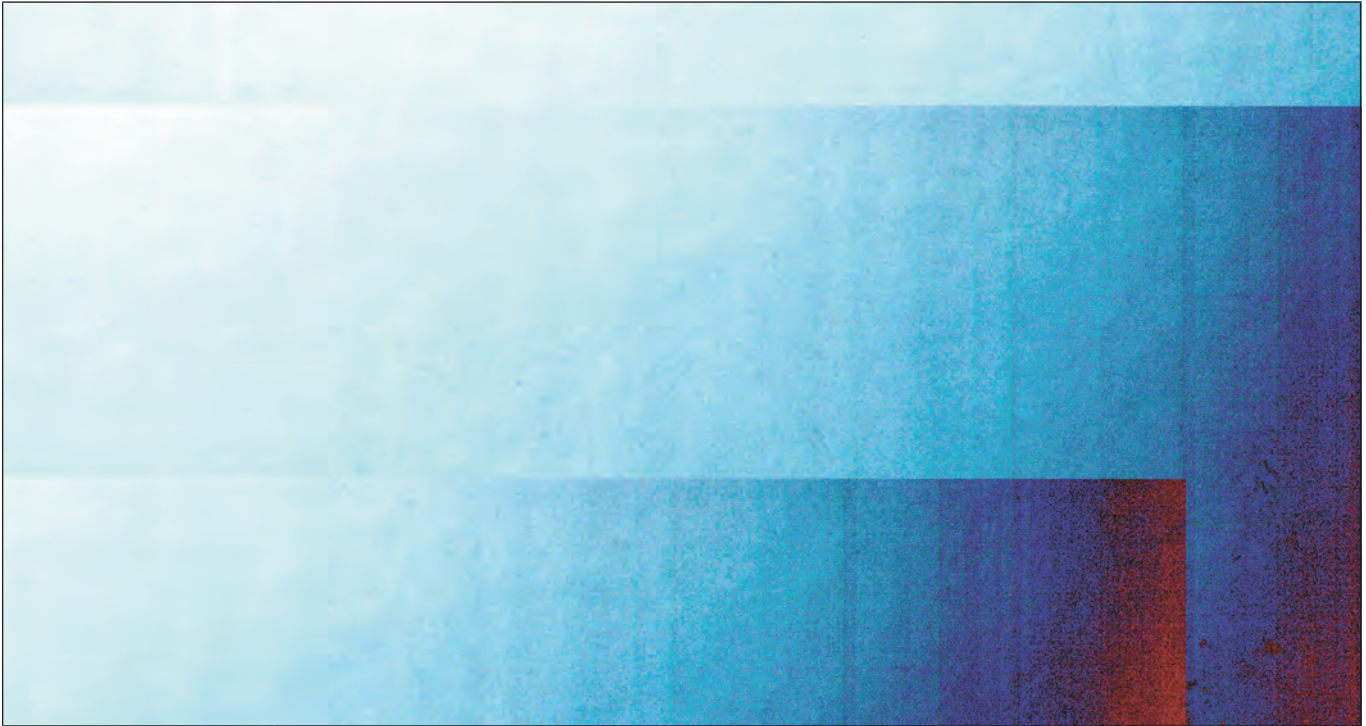
There are a number of actions the Victorian Government can take to improve access to external finance by businesses:

- Enhanced financial training for businesses, especially smaller businesses: Governments at both the Commonwealth and State levels have various training programs to foster business growth. One example is the Enterprise Connect program sponsored by the Federal Government which provides business advisory services. Consultations with small businesses confirm this and other similar programs should be expanded to provide small businesses with training in cash flow management and broader accounting techniques. Provision of further and more widespread financial management mentoring is also essential.
- Enhanced provision of information regarding finance options: Previous Ai Group consultations with small businesses confirm there is a lack of information and understanding by some small businesses regarding financing options and accessing government sponsored grants programs. There is scope for the Victorian Government to work closely with the Ai Group to facilitate greater information provision to businesses.

Having sufficient access to bank funding at reasonable interest rates is important to the long term viability of Australian businesses as they increase investments in businesses capability to achieve productivity improvements that are much needed for them to compete successfully in the domestic and international markets.

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<sup>3</sup> This survey data was collected in early 2011 as part of an upcoming Ai Group report into Australia's manufacturing sector.



## METROPOLITAN OFFICES

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