Ai GROUP SUBMISSION

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Ai Group Submission to the Victorian Government for the 2014-15 Budget

AUSTRALIAN INDUSTRY GROUP

Contents

About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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Executive summary

The central challenge for the Victorian economy is to lift its competitiveness. Business conditions in Victoria are becoming ever more challenging in response to a slower national economy, ongoing global difficulties and most recently, the announcements of the impending closure of local automotive assembly operations by Ford and GM Holden. Victorian businesses are looking to the Victorian Government's firm leadership in guiding and stimulating the Victorian economy.

Improved competitiveness is necessary for the Victorian economy to generate the jobs and income growth that will come if Victorian businesses can make inroads into export markets – particularly in Asia - and overcome stiff competition from imports.

Lifting competitiveness is central theme of this submission and Ai Group urges the Victorian Government to adopt the taxation, funding, infrastructure education and training and other policy initiatives contained in this submission as they could improve the competitiveness of the Victorian economy and assist current and future Victorian businesses develop and gain market share domestically and internationally.

In particular, we call on the Victorian Government to reform state-based taxes that disadvantage Victorian businesses relative to other states such as payroll tax. We would also encourage further reforms to reduce the regulatory burden on business.

We commend the Victorian Government for investing in infrastructure and would welcome further commitments to projects that meet cost-benefit analysis to ensure that a healthy pipeline of projects exists into the future, providing certainty and opportunity for local business.

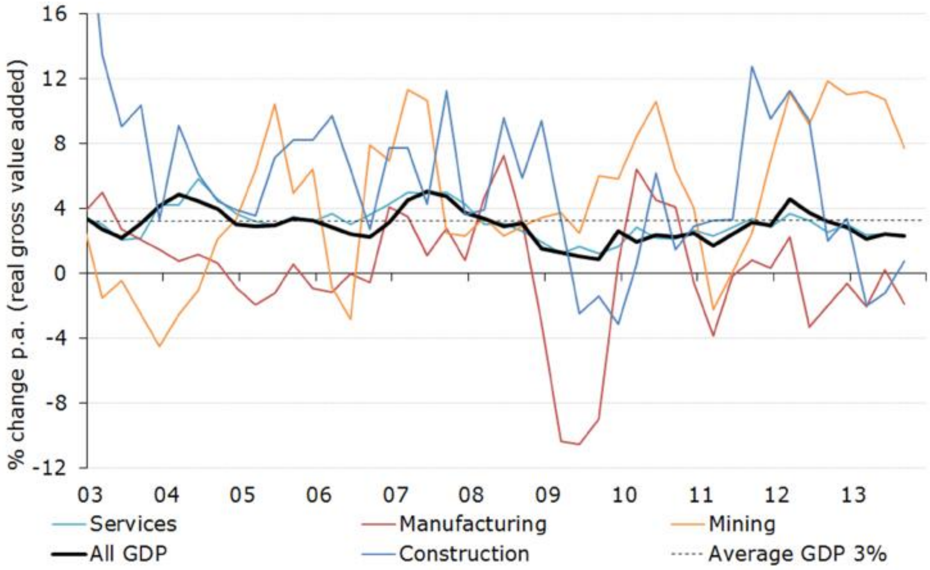
We would also welcome further reforms to the vocational education and training system to strengthen the sustainability of the system and ensures training is well-targeted to meet the needs of Victorian business.

Ai Group appreciates that the Victorian Government faces challenging fiscal circumstances while having to deliver on these policies and provide essential government services, given the highly uncertain global economic outlook and a softening Australian economy.

The Australian Economy

Australian economic growth slowed steadily through 2012 and 2013, recording below-average rates of growth in real output (GDP) in all three quarters so far in 2013. The latest data showed real GDP grew by 0.6% in the September quarter and 2.3 over the year (inflation and seasonally adjusted), indicating the economy is treading water at best. Among our six largest industries (in value added terms), three sectors – mining, finance and health – showed strong growth in value-added output through 2013 while the other three – construction, manufacturing and professional services – were flat or declining (see chart 1). Mining output now accounts for more than 10% of national value-added output on its own, while these six largest industries produce almost half of our economic output (around 45%) and account for a similar proportion of total employment (43%).

Chart 1: GDP and major industries, annual growth in real output (% p.a.)



Source: ABS, *National Accounts*. Sep 2013.

Construction and manufacturing (our third and fourth largest sectors in terms of value-added output and employment, together accounting for around 15% of GDP and 18% of jobs) have experienced especially difficult trading conditions over an extended period of time, due to a variety of domestic and international factors. Manufacturing has experienced only one quarter of positive annual growth in output since early 2012 (0.2% p.a. Q2 2013). Meanwhile, construction saw two quarters of contraction in output in 2013 (in annual growth terms), despite the apparent boost that this sector was receiving from the mining investment boom during this period (see chart 1). This was because the rise in mining-related engineering construction was not enough to outweigh the falls in commercial and residential construction during the recent lows in their activity cycles. Trends in profits, incomes, employment and investment have followed a similar trajectory over this period in these two key sectors.

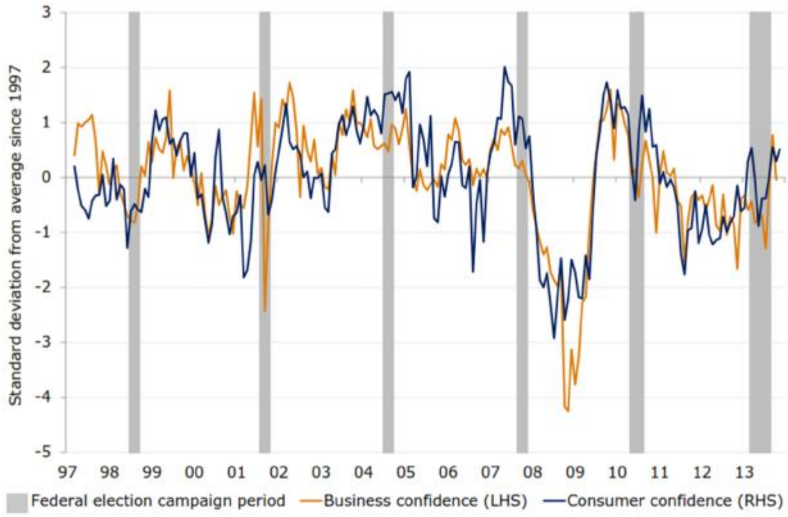
Although the Australian economy continues to perform significantly better than many of our developed economy peers, these weak rates of national economic growth are concerning. The long-term average rate of growth in real GDP for Australia is around 3.0% p.a., while the population growth rate is around 1.8% p.a. Economists consider that real GDP growth of 3% or more is a necessary and minimum condition to generate sufficient employment growth to stop the unemployment rate from rising. With GDP growth running at just 2.6% p.a. and no strong drivers of growth yet emerging to replace the recent (but now declining) support from mining investment, we can expect the unemployment rate to keep drifting up, with output and income per capita likely to drift sideways at best.

The economic mood lifted in the second half of 2013, with several 'real-time' activity indicators pointing to strengthening local demand since the September federal election. Real concerns remain however, about the ability of our non-mining sectors to step into the growth gap that is opening up in the wake of the mining investment boom, which has already reached its peak in this cycle. In a recent statement, RBA Governor Stevens noted that since the election "*there has been an improvement in indicators of household and business sentiment recently, but it is still too soon to judge how persistent this will be*." Of particular significance, Stevens also noted that "*the Australian dollar, while below its level earlier in the year, is still uncomfortably high. A lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy*."

Confidence among businesses (the NAB monthly survey) and consumers (Westpac-MI and Roy Morgan) showed a Australian economy experienced a normal reaction to a federal election, with a sharp lift in confidence immediately after the election, followed by a moderation in economic expectations some time later. This moderation in mood might be setting in earlier now than in the 2000's, reflecting the weaker state of the economy in general now, compared with the more prosperous, high-growth, pre-GFC period. Business confidence in particular, had already slumped back to its long-term average in October and consumer confidence followed a month later (see chart 2).

These confidence measures confirm the trends emerging from the latest Ai Group Australian PMI®, PSI® and PCI®, which suggest a moderate but not especially strong improvement in local demand and activity in the last quarter of 2013 (see chart 3). For many of our economy's largest industrial sectors, this last quarter of 2013 seems to be offering a partial recovery at best from an extended period of tough trading conditions (due to factors such as the high dollar, weak local demand, shifting global growth patterns and high local costs), rather than new opportunities for outright growth.

Chart 2: Business and consumer confidence in election cycles



Source: NAB, Westpac-MI and ANZ.

Chart 3: Australian PMI®, PSI® and PCI®

Source: Australian Industry Group.

The outlook for the Australian economy is relatively flat for the foreseeable future, because many of the headwinds noted above are likely to remain in play. This fragile trading environment will entail ongoing adjustment from business and industry and will require a strong degree of sensitivity, caution and stability in our economic policy settings. The RBA and other official forecasters expect GDP growth to stay below the long-term average (around 3%) in 2014 and into 2015 (see table 1). In November, the RBA revised down its GDP growth expectations for 2014-15, by about 0.5% points. Below-trend growth is now expected to continue over a longer period than was expected previously, due to factors including: a sharp fall in mining investment (which will subtract from GDP growth); only moderate growth in household spending due to slow employment growth and increased savings; and fiscal restraint by federal and state governments. Bright points in the outlook will be resources export volumes (up strongly) and housing construction (recovering).

In its recent mid-year update, the Australian Treasury its forecast for real GDP growth to be below trend through 2013/14 and 2014/15 and the labour market outlook also appears weak. Employment is expected to grow by just 0.75% in 2013/14 and rise to just 1.5% in 2015 and 2016. Treasury forecasts this will see a lift in the unemployment rate to 6% by mid-2014 which then sit at an elevated 6¼% through until 2017. Workforce participation rates will also remain lower as older workers leave the labour market and younger workers delay their entry. This weak pattern of growth will place increasing pressure on Government and industry to find productivity improvements, in order to drive future growth in our output and incomes.

Table 1: Latest Australian growth forecasts (official sources)

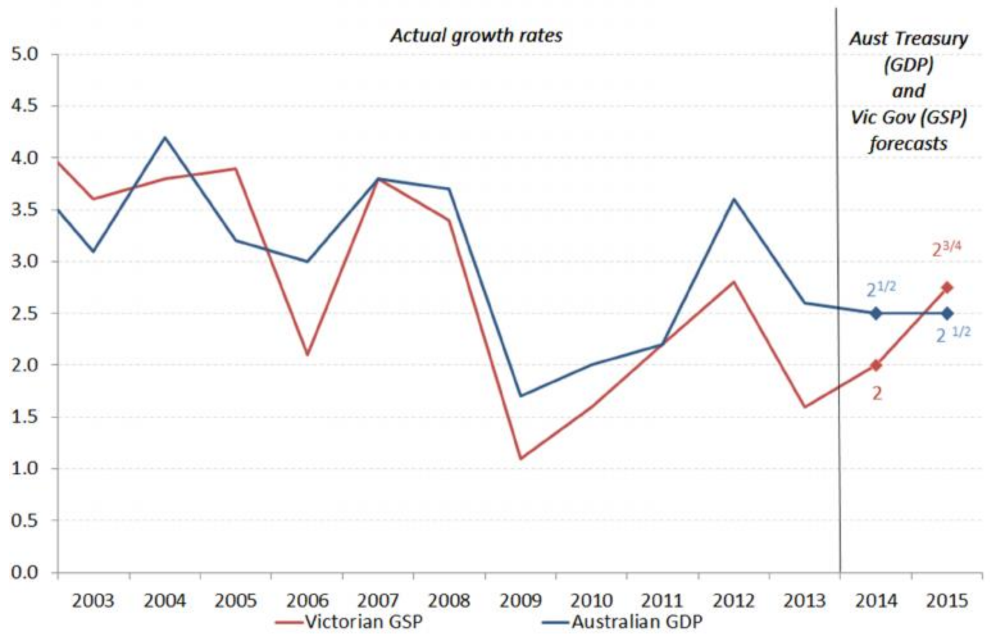
GDP growth, % p.a. (year end)	2013	2014	2015	2013-14	2014-15	2015-16
RBA (November 2013)	2¼	2 - 3	2¾-4¼	2½	2¼-3¼	
Treasury (December 2013)				2½	2½	3
IMF (October 2013)	2½	2.8				
CPI rate, % p.a. (year end)	2013	2014	2015	2013-14	2014-15	2015-16
RBA (November 2013)	2¼	2 - 3	1½ - 2½	2¾	2-3	
Treasury (December 2013)				2¾	2	2½
IMF (October 2013)	2.2	2½				
Employment growth, % p.a.	2013	2014	2015	2013-14	2014-15	2015-16
Treasury (December 2013)				0.75	1½	1½
Unemployment rate, % (year end)	2013	2014	2015	2013-14	2014-15	2015-16
Treasury (December 2013)				6	6¼	6¼
IMF (October 2013)	5.6	6.0				

The Victorian Economy

After experiencing weakness through 2012, the Victorian economy continued to track below the nation's already subdued growth in 2013. The state accounts for around 22% of the Australia's GDP and has a large services and manufacturing sector relative to national output, and has one the smallest exposure to the mining sector. Of all the states, Victoria is particularly susceptible to the Australian dollar, and at elevated levels, the currency weighed on the state's manufacturing sector as well as education and agricultural exports, without the cushioning effect from a mining sector experiencing higher commodity prices.

In 2012-13, Victorian real GSP grew by a below-trend 1.6% over the year, versus 2.6% nationally and lagging Western Australia, Queensland and NSW. However, real GSP per capita fell by 0.2% over the year, which was actually the strongest performance among the states. National real GDP per capita fell 1.3%, which highlights that Victoria is less exposed to weaker incomes from the downturn in commodity prices (see chart 4 and Table 2).

Chart 4: Victorian GSP and Australian GDP, real % change per year

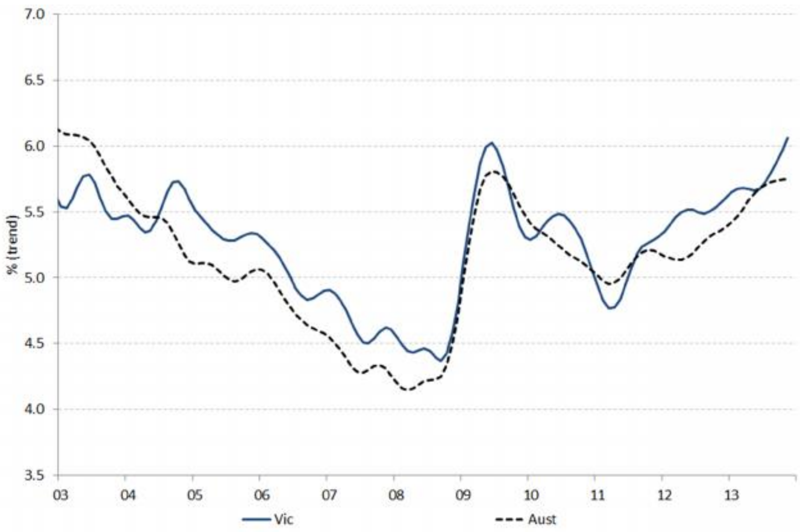


Source: ABS, *state Accounts 2012-13,* Nov 2013; Victorian Budget Update, Dec 2013; Aust. Treasury, MYEFO, Dec 2013

More recent data from the quarterly *National Accounts* paints a more positive picture, indicating the Victorian economy has strengthened since 2012, when the state recorded a technical recession. state final demand (consumption and investment) has grown each of the first three quarters in 2013 released so far after contracting through 2012. However, growth over the year still remains very weak at 0.8% p.a. in September (Q3).

Victoria's labour market remains soft despite recent signs of improvement in late 2013. The state experienced employment growth by 1.2% over the year to November, outpacing the extremely weak national employment growth of just 0.8% p.a. But the state's unemployment rate has drifted up in line with national trends and now sits above the national rate (Chart 5 and Table 2). In trend terms, Victoria's unemployment rate sat at 6.1%, sitting above the national rate of 5.8% in November.

Chart 5: Australian and Victorian trend unemployment rate



Source: ABS 6202.0 Labour Force, Australia

At its mid-year update in December, the Victorian Government forecast the economy to strengthen in 2013-14, albeit not as strongly as it anticipated at the May Budget. Real GSP is expected to expand by an annual 2% in 2013-14 and further strengthen to a trend growth rate of 2.75% in 2014-15 (Chart 5). Employment is forecast to rise by 1.0% in 2013-14, which still below trend and would do little to bring the unemployment rate down in the near-term which is forecast to stay around 6%. In 2014-15, stronger employment growth of 1.5% will bring the unemployment rate back to 5.75%.

The drivers of growth are forecast to emanate from a continued upswing in dwelling investment given historically low interest rates, as well as a larger contribution from trade owing to the recent depreciation of the Australian dollar. However, household consumption and business investment are expected to be moderate at best.

The largest risk to the Victorian economy over the coming years is the ongoing uncertainty surrounding the automotive industry and its suppliers. Victoria accounts for around half the nation’s employment and output in the industry. At this stage, it is unclear what GM Holden’s announcement in early December that it would scale back local car production before ceasing production completely in 2017 will mean for the state. The departure of GM Holden will leave Toyota as the only local car manufacturer, given Ford’s announcement earlier in 2013 that it would also end production at its Geelong and Broadmeadows plants in late 2016. While the direct job losses arising from these decisions have been announced, it is unclear whether Toyota will be able to sustain the “critical mass” of demand to keep businesses along the supply chain continuing to manufacture. In response to the Holden announcement, Toyota said it would review its local operations but no decision had been made at the time of writing this submission.

Some other risks to the outlook:

- Low interest rates have spurred an upswing in residential building activity in 2013 and this is expected to continue into 2014 across the country. However, economists at both ANZ and Deloitte Access Economics forecast Victoria is unlikely to experience the same degree of activity as other states, especially NSW, given Victoria did not experience the slump in building activity seen in other states. In NSW, for example, years of underbuilding and pent up demand is expected to fuel sharp growth in that state. This will also limit the upside to retail sales growth in the state, which tends to rise with home building, but overall household consumption will benefit to a degree from wealth effects owing to a strengthening housing market.

- The business investment outlook is weak. Victoria experienced a 25.7% annual decline in non-dwelling investment over the year to June 2013 according to the ABS state Account. Looking ahead, Investment intentions for both construction and plant and equipment contained in the ABS’s Capital Expenditure Survey indicate manufacturing sector investment will once again fall by 11 per cent in 2014-15. Non-mining investment as a whole is only expected to record a 0.4 per cent rise over the same period using five-year realization ratios. On the construction outlook, there have been some signs of recent pick-up in activity according to the Ai Group Performance of Construction Index, but is unclear how sustained that will be given recent weakness. While the $6-8 billion East-West link road project is welcome, there is a lack of other major infrastructure projects on the horizon.

Table 2: Australian state economies and populations

	NSW	Vic	Qld	SA	WA	Tas	Australia
Economy size (2012-13)							**GDP**
GSP, real $bn	471354	**333393**	294,548	94,210	252,999	24,191	**1,524,969**
% change p.a., 2012-13	1.8	**1.6**	3.6	1.3	5.1	-0.6	**2.6**
% of national GDP	30.9	**21.9**	19.3	6.2	16.6	1.6	**100**
Economy structure (2012-13)							**% of GDP**
Agriculture, % of GSP	1.4	**2.4**	2.7	4.8	1.0	7.4	**2.1**
Mining, % of GSP	3.1	**2.0**	10.3	4.1	34.3	1.6	**9.6**
Manufacturing, % of GSP	7.3	**7.9**	6.8	8.2	4.7	7.1	**6.8**
Construction, % of GSP	5.2	**5.9**	8.8	7.4	12.0	6.3	**7.6**
Retail, % of GSP	4.2	**5.2**	5.2	5.0	3.2	5.5	**4.5**
Transport, % of GSP	4.8	**4.7**	5.5	4.6	4.4	5.8	**4.8**
Financial services, % of GSP	11.5	**10.4**	5.1	7.3	2.9	6.4	**8.0**
Professional services, % of GSP	7.5	**8.1**	5.1	5.2	5.0	3.2	**6.6**
Public administration, % of GSP	4.9	**4.1**	5.5	5.8	2.8	6.8	**5.2**
Health, % of GSP	6.4	**7.0**	6.8	7.8	4.0	9.4	**6.3**
Education, % of GSP	4.6	**5.4**	4.3	5.1	2.7	6.7	**4.5**
Population size (2011 census)							
Population, mn	6.9	**5.4**	4.5	1.6	2.3	0.5	**21.727**
% of national total	32.0	**24.6**	20.5	7.3	10.5	2.2	**100.0**
Population structure (2011 census)							
% female	50.7	**50.8**	50.4	50.7	45.0	51.0	**50.6**
% born outside Australia	31.4	**31.4**	26.3	26.7	28.2	16.4	**30.2**
Median age, years	38	**37**	36	39	33	40	**37**
% aged 65 years and over	14.7	**14.2**	13.2	16.2	7.1	16.1	**14.0**
Households and incomes (2011 census)							
Number of households ('000)	2,471.3	**1,944.7**	1,547.3	619.0	794.2	192.8	**7,760.3**
Average persons per h'hold	2.6	**2.6**	2.6	2.4	2.7	2.4	**2.6**
Median h'hold income, $/week	1,237	**1,216**	1,235	1,044	1,415	948	**1,234**
Labour market (Sep 2013)							
Employment growth, % p.a.	0.6	**0.6**	2.1	0.0	1.0	-1.6	**0.9**
Unemployment rate, %	5.7	**5.7**	6.0	6.6	4.7	8.5	**5.7**
Participation rate, %	63.7	**64.9**	65.9	62.2	68.0	60.2	**65.0**
Wages and prices (Sep 2013)							
Wage price index,% p.a.	2.3	**2.9**	2.7	3.4	3.2	2.5	**2.7**
AWOTE, $/week (May 2013)	1,407	**1,338**	1,423	1,282	1,644	1,265	**1,421**
Capital city headline CPI, % p.a.	2.1	**2.4**	2.2	2.0	2.6	2.0	**2.2**

Sources: ABS, various publications.

The Automotive sector

Uncertainty surrounding the automotive industry remains a major source of risk for Victoria, which has the largest automotive sector in the country. The state accounts for around half of the sector in terms of the value of output and employment, reflecting the fact that the largest companies (two of the three assemblers and their 'Tier 1' suppliers) are mainly located in Victoria. In terms of business registration numbers, 32.6% of Australian automotive businesses were located in Victoria in 2011-12 (ABS data).

The direct job losses announced by Holden and Ford will be 2,900 and 1,600 respectively. The impact on the 28,000 employees nationally who work in the automotive supply chain businesses (August 2013, ABS data) is less clear. Up to another 50,000 people (another 5% of the manufacturing workforce) are employed in other parts of manufacturing and related activities that are also linked to this supply chain in some way, for example, because they supply basic materials, machinery or services to the automotive supply chain (often among other customers).

Over 3,000 Australian businesses were engaged in auto manufacturing in 2011-12 (ABS data). This included 527 businesses making motor vehicles, 1,331 businesses making 'motor vehicle and body trailers', 294 businesses making electrical components and 991 businesses making other motor vehicle parts.

Ai Group sees an important role in the Australian economy for these businesses. In the wake of the decision of GM Holden to cease local production, Ai Group believes the Victorian Government has a role to play to can assist automotive supply chain manufacturers to expand into global markets and diversify into other major manufacturing sectors. We encourage the Victorian Government to examine ways that would encourage these businesses to adapt to ensure the expansion of high value manufacturing in Victoria, as well as measures that would encourage research and development capacity to remain in Victoria.

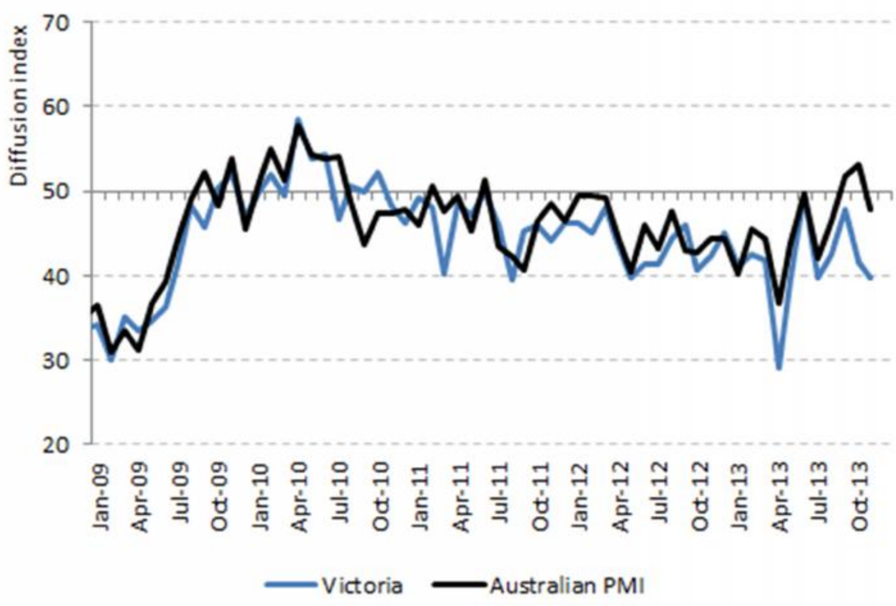
In December, the Federal Government announced a $100 million growth fund aimed at boosting the economic opportunities for industry and employees in Victoria and South Australia following GM Holden's decision. The Federal Government also said it would develop a National Industry Investment and Competitiveness Agenda for the country's manufacturing sector to lay out a plan to build opportunities for new industrial directions and to ensure Australia develops the capabilities to take advantage of these opportunities. Ai Group views this as a positive step and will go some way towards generating the new businesses investment and the development of new market opportunities both domestically and globally needed in the wake of the reductions in car assembly capacity.

Ai Group hopes to work with the Victorian Government to each play a central role in developing this agenda and also to ensure the initiatives of the $100 million growth fund are well targeted to assist manufactures along the automotive supply chain to diversify their business and continue to operate. We also feel both the Commonwealth and state governments will need to keep an open mind whether further financial injections are needed to the growth fund. It is also important that the National Industry Investment and Competitiveness Agenda is adequately resourced if the long-term repositioning of Australian industry is to be achieved.

Manufacturing

Aside from the automotive assistance, many of the policies sought within this paper, and funding recommended, will assist Victorian manufacturers at a time which is continuing to be challenging. The Ai Group Performance of Manufacturing Index (Chart 6) shows manufacturing within the state is performing poorly and, indeed, was weaker than the Australian average through 2013. While the recent depreciation in the Australian dollar, if sustained, would support growth, survey participants report that import competition is fierce, and both domestic and export demand is generally soft.

Chart 6: Australian and Victorian Manufacturing PMI



Source: Ai Group

The Victorian Government is the only state to have a Manufacturing Minister, indicating the importance the Government places on the sector's contribution to the state's economy. This appropriate given its size and contribution, with 8% of state gross product coming from manufacturing in 2012-13, ranking it third largest behind finance and insurance (10% of GSP) and professional services (8% of GSP) (see table 2). Manufacturing is also significant as an R&D investor and a large employer in Victoria.

For this reason, we would welcome focused attention by Department of Business and Innovation to guide local manufacturers if lifting their competiveness and productivity. In particular, local procurement policies would be of most benefit to the manufacturing industry, and would benefit the wider economy.

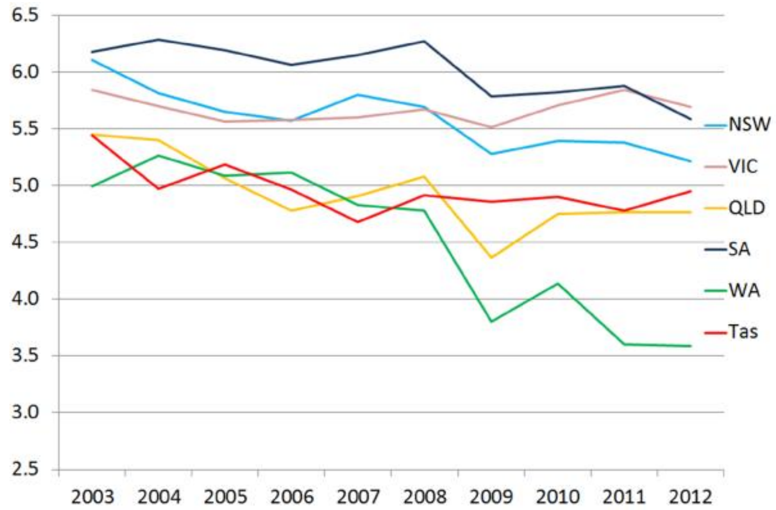
State-based Taxes

Ai Group understands Victoria's significant expenditure responsibilities require a sufficient and sustainable tax base. However the current taxation system in the state creates distortions which act as a dampener to economic activity and employment in the state. We view the best way forward would be for the Victorian Government to reduce taxation and re-prioritise expenditure simultaneously, preferably executed in phases to avoid sudden changes to business and government practices. We commend the Victorian Government on its efforts to find sensible savings

The case for state tax reform has been made clearly in Australia's Future Tax System Review ('the Henry Tax Review') in 2010 and Ai Group continues to push for these recommendations to be adopted across the country by all states and the Federal Government. However, for Victoria there is an even more urgent need than in the past to examine the state's taxation system, which we see as inhibiting growth and the competitiveness of Victorian business.

The most recent data available from the Australian Bureau of Statistics show that Victoria had the highest tax to gross state product ratio in 2011-12 (Chart 7) and that this ratio was consistently high over the previous decade. This includes payroll tax, land tax, land transfer duty, insurance duty and motor vehicle duty. They reveal the significant tax burden on Victorian businesses indicating Victoria must lower its state taxes to improve its competitiveness position relative to the other states, to retain and attract businesses and to generate jobs growth.

Chart 7: state and Local Government Taxes as a share of GSP



Sources: ABS, 5220.0 Australian National Accounts: state Accounts, June 2013; ABS, 5212.12 Government Finance Statistics, 2011-12

Ai Group members frequently raise Victoria's high payroll tax rate relative to other states as an issue of concern:

> *"Payroll tax is a tax on employment which discourages employment in the manufacturing industry and particularly those who compete for exports. This tax needs to be substantially reduced."*
>
> **Ai Group Member, December 2013**

Payroll tax is paid monthly by employers once their wage bill rises above a threshold. Both the rate of payroll tax and the threshold differ from state to state. While Victoria levies the second lowest rate of payroll tax, the threshold is the lowest and has been constant since 2002 at $550,000 which has seen an increasing number of Victorian businesses to become liable for the payroll tax and the associated reporting requirements.

Table 3: Payroll Tax by state

states	NSW	**VIC**	QLD	SA	WA	TAS
Threshold ($s)	678,000	**550,000**	1,000,000	600,000	750,000	1,010,000
Rate (%)	5.45	**4.9**	4.75	4.95	5.5	6.1

Sources: state Treasury websites

While stop gap measures can be adopted to provide near-term relief – such as raising or indexing the threshold - Ai Group recommends that a more far reaching approach be taken to payroll tax and other inefficient state taxes and we urge the Victorian

Government to give thorough consideration to the state tax reforms outlined in the Henry Tax Review.

Victoria should also work with the Australian Government and other states and territories to put in place a phased rationalisation of state and territory taxation, based on the state tax reform recommendations in the Henry Tax Review. This would stimulate economic growth and promote 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, Ai Group recommends that the Victorian Government continue to play a leadership role in engaging 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.

Regulatory compliance and costs

Ai Group acknowledges the firm commitment of the Victorian Government to reduce red tape in the public sector, and commends the work of the Red Tape Commissioner. The announcement that the state government would look to streamline the existing 16 regulatory authorities in the state is not only a good source of saving but has the potential to reduce the regulatory burden on business.

While it is clear the Victorian Government's commitment and progress to reduce red tape has been encouraging, Ai Group notes that feedback provided by members of Ai Group indicates that the compliance burden associated with business regulation remains high.

We also welcome the recent announcement (in the COAG Communique of 13 December 2013) by the Council of Australian Governments of a major focus on reducing red and green tape. And specifically that:

- The governments all agreed to work in their own jurisdictions to improve regulation and remove unnecessary red tape;

- They also agreed to work bilaterally to implement 'one-stop-shops' for environmental approvals in their states and territories; and.

- That COAG will work together on reducing red tape in the four areas of manufacturing, higher education, early childhood and 'end-to-end' regulation of small businesses, with each state to target specific small business sectors.

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.

- 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 <u>net</u> decline in the regulatory burden being imposed on 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).

- 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.

Infrastructure investment

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

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:

- Setting up an Infrastructure Victoria agency to better coordinate the planning, prioritisation and execution of infrastructure projects throughout the state.

- Establishing and formalising a community and business consultation process, where robust debates on the prioritisation of Victorian infrastructure projects could be conducted.

- Regular updates to inform industry about the level of priority attached to major infrastructure projects throughout the state to facilitate the planning processes in businesses and lift productivity throughout the Victorian economy.

- Further development of structured public-private partnership policies that more efficiently allocate risks to attract more private sector investments and reduce costs.
- 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.
- Arrangements to ensure that contractors give full and fair consideration to local businesses when awarding contracts.

Ai Group commends the Victorian Government for progress made on the first stage of the $6-8 billion East West Link project, which will ease congestion and provide a much needed, long-term alternative to the M1 corridor. The project also provides a good pipeline of work in an otherwise soft outlook for the construction sector. This project is expected to generate 3,200 jobs during delivery.

Ai Group also welcomes progress on developing the Port of Hastings as Melbourne’s container shipping point, given the increasing strains on the capacity of Port Melbourne given container traffic volume increases. The development of the second port is critical for the future of the growing freight trade and the viability of the sector well beyond the next decade. This project will enable Melbourne to reap the full advantages of enhanced trade links with the booming Asian economies. We would welcome further progress and a firm commitment by the Victorian Government to ensure industry has access to a second port before crippling bottlenecks emerge and harm productivity.

Looking ahead, we call on the Victorian Government to commit to further infrastructure projects, which are needed to secure the state’s long-term economic future. They would also provide a healthy pipeline of construction work which would benefit Victorian industry and employment.

In particular, Ai Group notes the Victorian Government has listed its priority projects which include the second stage of the East West Link, the M80 Upgrade, Melbourne Metro, the Dandenong Rail Capacity Program and Western Interstate Freight Terminal. We certainly welcome those projects provided they meet a rigorous and transparent evaluation process. Such a pipeline of projects would increase the capacity of Melbourne’s transport network while reshaping the city by unlocking land use change and urban renewal. Delivering these projects in an integrated and sequential infrastructure program over the next five to 10 years will enable investment decisions to be made that maximise network benefits, optimise funding availability and integrate infrastructure delivery with urban renewal.

In order to ensure a smoother implementation for these major public infrastructure projects, we believe the government should consider the introduction of Dispute Resolution Boards (DRB) that can help to resolve disputes before they escalate into disruptive action. As a model for this process, the website **http://www.drba.com.au/** provides a practical overview, together with details of the projects where DRB's have been utilised to deliver excellent outcomes in other jurisdictions.

Ai Group strongly urges the Victorian Government to remain firmly committed to these infrastructure projects, as they will help to lift the competitiveness of Victorian businesses and the economy. While a significant amount of money has been allocated for infrastructure spending, it is important that the Victorian Government does indeed spend this money as proposed.

The challenge for the Victorian Government is to continue investing significantly in infrastructure while exercising fiscal prudence in funding the investments that will maintained the state's commendable AAA credit rating. This will be especially challenging given the anticipated decline in GST revenue allocated to Victoria by the Commonwealth Government.

Ai Group supports the involvement of the private sector, including the superannuation industry, in infrastructure development both as a means of financing new projects and in the purchase of existing assets suitable for privatisation. The latter can be used to reduce public sector debt and to finance new infrastructure development.

Ai Group also recommends the Victorian Government adopt a greater use of debt financing for spending on infrastructure, as the debt level of the Government remains relatively low. Ai Group urges the Victorian Government to adopt a long term view in deciding on using debt to finance infrastructure investments in recognition of the fact that when infrastructure investments yield sufficient economic benefits for current and future generations of Victorians, debt financing can make good economic sense. Well-founded and rigorously assessed investments targeted at improving the fundamentals of the Victorian economy will generate economic growth and revenue, which will relieve budgetary pressures over time.

Tender costs of government construction projects

The excessive costs for tendering for major infrastructure projects have long been a burden on business. Ai Group welcomes the new Partnerships Victoria requirements that mean PPP projects just two bidders. Ai Group also acknowledges the commitment to the partial reimbursement of external bid costs which we greatly support as it will provide an overall value for money outcome for the state. However, we would also like see these new requirements on bid costs on other procurement processes.

Transport industry policies

Ai Group commends the Victorian Government decision in the 2012/13 Budget to invest in trains that will be fitted and maintained locally. $176.1 million will be invested in eight new trains for the metropolitan network that will be fitted out by Victorian business, while $207 million will go towards 40 new regional network trains, to be produced locally. This will benefit local manufacturers and improve Victoria's public transport network, contributing to environmental protection and creating skilled jobs. Ai Group looks forward to these investments being tendered and to the State Government recognizing the importance of ensuring significant local content within these train construction contracts. Significant local content must be secured at both the equipment manufacturing stage and the ongoing maintenance stage of each train project.

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 our local rail, tram and bus manufacturing industries has increased considerably over the past few years and Ai Group believes this should continue as a matter of course. This commitment will take on additional significance over the next few years in light of the recent announcements by Ford and GM Holden to cease their automotive assembly operations in Victoria from 2015 and

2016 respectively. The Victorian Government must continue to show leadership in developing our other, non-automotive transport industries. 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

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, 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.

Government procurement policy

Ai Group acknowledges and commends the Victorian Government for introducing the "Procurement Reform in Victoria" package, which contains a number of proposals to help businesses ensure they can more easily sell to state Government. The new package shows the Government recognises the need to improve its own Department's procurement practices. A number of measures have been considered in the package:

- Greater visibility of forthcoming procurement opportunities will be important and will give businesses an opportunity to plan for tendering;
- Introduction of Chief Procurement Officers within each of the departments is important as this should help ensure the departments have a greater focus on opportunities for local businesses;

- Making decisions based not just on the cheapest price; and
- Debriefing to unsuccessful tenders is a positive development and should enable businesses to be better informed.

Despite these proposed changes being introduced, it is, however, important the Government continues to drive the changes, as without strong Government leadership they are unlikely to be implemented fully and properly. The State Government can and must do more to ensure that local procurement is promoted in each individual stage of contracting out the supply, fit-out and maintenance of all equipment and services. Recognition of local manufacturing capacity in Government procurement tender processes and contracts is especially important in light of the recent decisions by Ford and GM Holden to cease automotive manufacturing in Victoria from 2015 and 2016.

Importantly, Ai Group believes there are a number of areas where other improvements could be made:

- The value-for-money procurement objective is too subjective and uncertain.
    - Government Departments are expected to have considerable flexibility with the Value-for-money Procurement Policy, and this will make it particularly difficult to ascertain a Department's commitment to the new policy. The Victorian Government needs to set clearer guidelines for agencies and departments.
    - The exemption of schools and hospitals from the Value-for-money Procurement Policy may remove up to $6 billion worth of Government procurement. This exemption is not appropriate and should be remedied immediately.
    - The high level of attention given to small and medium size businesses is not proposed for larger businesses.

In addition to these concerns, Ai Group believes there remains 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.

Ai Group has consistently argued for consideration to be given to the whole of life costs of projects. Whole of life costs should include costs incurred by the purchaser from after-sales service, regular maintenance and servicing, parts replacements and any machine down time. It should also take into account supply risks, quality risks and reliability that may affect production delivery times and/or these future costs. In many cases a holistic assessment of these costs will show that for local businesses these total costs could be lower than for overseas-based businesses because services could be rendered more quickly, more reliably and replacement parts delivered more promptly.

Consideration of whole of life costs should not, however, be calculated in such a rigid way as to result in future local maintenance or cleaning services costs being factored into the local input percentages for initial contracts to supply machinery and equipment. For example, routine local cleaning or maintenance services that will be necessary for all equipment regardless of where it is made should not be included in the local content percentage that is calculated for an individual transport equipment item. Instead, the local input should be considered in relation to the inputs required to manufacture the item, separately from the routine cleaning and maintenance contracts.

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 manufacturers broaden its customer base across states.

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, ongoing supplier relationships and speed of maintenance repair.

- 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.

Education and Training Reform

The release of the *Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce* acknowledges the issues that flowed from the introduction of vocational training system reforms.[1] These issues include weak price signals, limited and poor quality information, gaps in the quality assurance and regulatory framework, an inconsistent competitive environment and a limited market oversight capacity. In short, the Government has moved to manage the training market and make specific interventions. There is recognition that the market is complex and cannot be left without management due to the risks of market failure and sub-optimal outcomes. The establishment of a market monitoring unit has been central to this.

One of the features of the fully contestable market system and uncapped places is the significant increased activity outside of TAFE institutes. By 2012 TAFE market share had decreased to 42%.[2] The number of private providers increased from 201 in 2008 to 445 in 2012. The Government considers this to be a success in terms of expanding the market and choice of providers but this may well have a negative effect on the provision of trade training which is largely delivered by TAFE institutes.

There has increased growth in foundation skills courses and specialised and skill shortage areas, but there are still significant enrolments in courses of limited vocational benefit.

To address the particular issues for regional and rural Victoria the previous budget supplied $200 million over four years through a structural adjustment fund. It remains to be seen what impact this has on the provision of training. The Government expectation remains that regional TAFE institutes need to compete in the market-based

[1] *Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce*, Department of Education and Early Childhood Development, January 2013.
[2] Ibid, Page 6

system. The focus remains entirely commercial with little recognition of the broader role of TAFE in the community and the fulfilment of their statutory community service obligations.

The TAFE Reform Panel has highlighted the lack of a clear definition of community service obligations.[3] These lay outside of commercial considerations and could be funded this way.[4] The Government has indicated support for this but preferred to respond through the application of subsidies and additional loadings.[5]

There has been an attempt to address quality issues. The contractual requirements for publicly funded providers have been strengthened and Victoria will continue to work with the National Skills Standards Council to develop a more performance-based regulatory framework. However, entry standards continue to emphasise processes and inputs for registration which do not necessarily ensure quality outcomes. Data on quality remains inadequate to identify high-performing providers to facilitate informed choice. Reports of low quality outcomes persist and more needs to be done in this area.

While the movement to a more managed approach to the funding model is welcome Ai Group believes further budgetary attention is needed for:

- the continuing expansion of private providers of training and the impact on the provision of trades training;
- an analysis of whether industry skilling needs are being met in rural and regional Victoria; and
- the implementation and integration of a range of quality measures to instil greater confidence in the system.

VET in Schools Policy

The Review of Vocational Pathways in Senior Secondary Education commenced in October 2012. The Victorian Department of Education and Early Childhood Development (DEECD) has been working with schools, training providers, industry and other stakeholders to:

[3] *TAFE Reform Panel*, Department of Education and Early Childhood Development, January 2013, page 47.
[4] Hetherington D. and Rust J., *Training Days*, Models of Vocational Training Provision: Lessons from the Victorian experience, Per Capita, July 2013.
[5] *Next Steps for Refocusing Vocational Training in Victoria – Supporting a Modern Workforce*, Department of Education and Early Childhood Development, January 2013, page 34.

- examine how effectively vocational education is being delivered in senior secondary schools;
- examine how well government investment is being used to achieve results for students;
- examine how well the current system is placed to transition students into jobs or training; and
- develop more efficient and effective funding models comparable across sectors.

Recommendations from this review were expected mid-2013. It has been some time since the Department launched a review of VET in Schools. In the interim youth unemployment in Victoria is climbing. Unemployment in Victoria for 15 – 19 year olds is increasing to 22.1%, the second highest after the Northern Territory, and higher than the national average. The 20 – 24 years group has also increased to 8.5%.[6] In addition, recent studies from the University of Melbourne suggest that VET in Schools is unsuccessful in providing a pathway to post-school employment. Victorian destination data reveals that over 38% of VCE VET students gain university admission while only 21.8% make a direct transition to employment.[7] In addition, this research claims that the varied purposes of VET in Schools limits the effectiveness of the program.[8] There are continuing reports of decreasing employer confidence in the program outcomes.[9] Given these trends and the level of conjecture it is time for the Department to release the outcomes of the review with the aim of building employer confidence in the VET in Schools arrangements.

Workplace Learning Coordinators

Program funding has been provided for Workplace Learning Coordinators at the same amount that was provided in 2013. Reports from the Annual Report of the National Partnership on Youth Attainment and Transitions for Victoria shows that the program has been relatively successful in meeting set targets as indicated in the following table.[10] Given the importance of continuing this work and that Commonwealth funding arrangements conclude at the end of 2013, it is important that the State Government continue funding beyond 2014. Longer term funding is required to enable effective relationships and partnerships to develop between industry and schools. The provision

[6] *How Young People Are Faring 2013, Supporting Tables*, Foundation for Young Australians, page 16.
[7] *The On track Survey 2012, The Destinations of School Leavers in Victoria state-wide Report*, Department of Education and Early Childhood Development, October 2013.
[8] Kira Clarke, *Entry to vocations: strengthening VET in Schools*, NCVER, 2013.
[9] *Making Sense: a business perspective on school reform*, Australian Industry Group, June 2013.
[10] National Partnership on Youth Attainment and Transitions, Victoria, Annual Report, May 2013.

of workplace learning is a key factor for the establishment of a quality VET in Schools program and in securing industry confidence in the program.

WLC overall placement outcomes by type of placement, 2012

Work Placement	Structured Workplace Learning (SWL)	School-Based Apprenticeship and Traineeship (SBAT)	Work Experience (WE)	Non-school placements (ACE, TAFE & other RTOs)	Total
Outcomes achieved	7,503	1,811	5,259	1,448	14,883
Targets	7,128	1,270	6,291	1,634	15,608

Apprenticeship Commencements

Victorian apprenticeship commencements, whilst the highest across Australia, are showing a downward trend. Across 2011 – 2012 they showed the greatest level of decrease nationally from 96,500 to 92,000.[11] This is also reflected in NCVER data showing a decline from 83.4% to 80.8% across 2011 to 2013 in employers with apprentices and trainees.[12] Given this it is important for the government to maintain and increase initiatives to sustain apprenticeship enrolments and commencements.

Apprenticeship Support Officers Program

The Apprenticeship Support Officer (ASO) program aims to increase the proportion of young people aged 15 – 24 years who successfully complete their apprenticeships by providing them with pastoral care during the first 12 months of their apprenticeship. In 2012, approximately 83%, or more than 12,300 eligible apprentices, participated in the Apprenticeship Support Officer Program with targeted support provided to apprentices rated at medium or high risk.

The ASO Program has been extended until the end of 2014. Given the value of the program in addressing the issue of non-completions the Government should continue to fund this program for an extended period.

[11] NCVER, Australian vocational education and training statistics, Apprentices and trainees, 2012
[12] NCVER, Australian vocational education and training statistics, Employers' use and views of the VET system, 2013

Higher Education Policy

There has been considerable change in the higher education sector following the release of the Bradley Review in 2008.[13] In particular the removal of capping of the volume of tertiary places, the introduction of a demand driven system, the establishment of national equity targets to increase cohort diversity and the establishment of the Tertiary Education Quality and Standards Agency (TEQSA) as a national regulator are all major shifts in the sector.

The most recent Victorian position on higher education seems to be the 2009 *Report advising on the development of the Victorian Tertiary Education Plan*.[14] Given the considerable policy changes in this area since then a statement or policy in this area is long overdue.

National harmonised OHS legislation

Ai Group and its members – both large and small – remain committed to a nationally harmonised OHS system and are concerned by the lack of progress on harmonisation over the past year since our last submission. Every day, Ai Group members operating across state boundaries are frustrated by inconsistencies between state laws, with those trading across the Victorian and NSW border frequently complaining about the additional costs of doing business.

The opportunity remains for Victoria to continue to lead OHS reform across the country. We understand and appreciate that a national system means some compromises need to be made by Victoria, which has good regulation. But together with many of our members, we feel any downsides are far outweighed by the positives that a single national harmonisation would bring for Victorian businesses. The Victorian Government needs to re-establish itself as the leader in this area.

Energy costs

There are several major energy issues confronting Victoria over the next few years which should be taken into account in the Government's budgetary settings and spending plans. The fundamental picture for energy users is that retail energy prices will remain high. The wholesale component of electricity prices is deeply depressed and likely to remain so for some years as a result of weak demand and an oversupply of

[13] *Review of Higher Education*, 2008.
[14] Report advising on the development of the Victorian Tertiary Education Plan, December 2009.

generation capacity. However the growth in network charges has been such that even if, as we assume, the carbon tax is repealed in 2014, the prices paid by end users for electricity will remain well above the levels of 2008. Meanwhile wholesale gas prices will triple over the next few years as the marked moves to oil-linked export parity pricing.

Energy users of all sorts will be under significant pressure as a result of these prices. Industrial users of gas will face particularly intense challenges. And in the longer term, wholesale energy prices will need to rise substantially when major new generation capacity investment is required, whether to meet new demand or replace retiring generation. Thus despite a drop in overall electricity demand, further improvements to energy efficiency remain vital. Efficiency can minimise the damage of higher prices to trade exposed industries' competitiveness, and can help defer the need for new generation capacity. With the closure of the Federal Government's Clean Technology Investment Program, which supported efficiency investments among manufacturers, state Government policy can play an important role. Regional development funds have been very important to major efficiency investments in industries such as food processing, while support through a reformed Victorian Energy Efficiency Target has the potential to make an important contribution to the competitiveness of smaller and medium-sized energy users. An exemption from VEET for large energy users unsuited to the program should be preserved.

Waste costs

The stated purpose of the Landfill Levy is to encourage positive and efficient waste disposal behaviour and improve the competitiveness of alternative waste disposal methods. To further these goals and to reassure industry and the community of the utility and legitimacy of the Landfill Levy Ai Group recommends that the revenue collected through Victoria's comparatively high Landfill Levy should be put to constructive use in the waste space, rather than being absorbed into general revenue.

Ai Group believes that the revenue collected through Victoria's high Landfill Levy should be put to constructive use in the waste space rather than being absorbed into general revenue. This levy should be aimed at improving waste management practices to benefit Victorian industry and reduce cost.

In particular, an important opportunity to benefit industry, the community and the environment would be to use levy revenue to fund a new waste education campaign coordinated by the Victorian Government. Currently it is the responsibility of the waste industry to fund and direct community waste education as part of the requirements for being awarded a tender. The Government’s recently released waste and resource recovery plans re-emphasise education to encourage positive waste disposal behaviour by the community. Ai Group believes that making this essential function a government responsibility would generate manifold benefits, including:

- The Victorian Government has the resources and experience to ensure maximum coverage and consistency of message;
- Government messages have a credibility in the eyes of the community that corporations with a financial stake in the industry often lack;
- Compelling industry to budget for an ongoing education program over the life of their contract only encourages haphazard and half-hearted efforts;
- Assigning this responsibility to Government would decisively end the current environment of blame shifting over the responsibility for improving the behaviour of households.

With up to $300 million collected through the Levy, a public campaign could be significantly larger and more effective than the sum of fragmented industry efforts. It could permanently improve the waste habits of the community. Ai Group would be pleased to participate in consultations with the Government to develop this and other possible beneficial uses of Levy funds.

Funding from the hazardous waste levy should continue to be partially hypothecated, as has been the case since its inception. There has been considerable success in reducing hazardous waste as a result of this levy. The levy’s funds need to continue to be offered to those companies which both create waste and have the greatest opportunity to reduce it. Such activity remains an important part of Victoria’s environmental mandate. Additionally, these levy funds could be used to create jobs with a technological focus in the hazardous waste disposal area, so as to ensure the greatest general benefits to the Victorian community.

Supporting exporters

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:

- Continuing to 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 help to increase the chances of smaller Victorian businesses being able to successfully break into new overseas markets.

- Ai Group urges the Victorian Government ensure a continuation of targeted assistance for business participation in trade missions.

- Ai Group also calls on ongoing assistance for Victorian exporters beyond the initial assistance of establishing export relationships. Further advice and support to help business further grow exports would benefit the state.

- An export market foresighting or exploration role could be adopted by the Victorian Government. Many companies affected by the loss of automotive manufacturing will need assistance to develop other markets. The Government could, for example, offer expertise to help them to develop export leads that will give them new growth opportunities.

- 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. 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.

Online business management

In our view, collaboration between the Victorian Government and other stakeholders will be critical to strengthening Victorian businesses capabilities in the digital economy. Ai Group research has shown that businesses primarily get their information about new technologies from other businesses and the investment activity of competitors is a key spur for other companies to invest. Suppliers and clients are particularly important in this area and are often a source of information and training. This has implications for Government interventions in this area including:

- It is likely that it will be more effective and efficient for the Victorian Government to work collaboratively with the business community to deliver programs as this will expand the reach and audience for information and will match the channels that businesses are already using to get information.

- Developing digital resources / benchmarking tools targeted at a particular section of the business community (for example, a sector level and company size level) will be important because they will have higher relevance to the audience. Ai Group's experience is that case studies are a very powerful way of engaging the interest of businesses. We recommend that the Government work with the industry to develop case studies from different industry sectors to highlight successful examples of where companies are taking advantage of digital economy opportunities or transforming their business.

- Working collaboratively with partners will allow the Victorian Government to be more efficient and cost-effective in developing and disseminating resources.

Container deposit legislation

Container Deposit Legislation (CDL) is currently being considered by the Victorian Government. Ai Group opposes CDL as we believe it to be both unnecessary and would devalue recycling arrangements currently in place in Victoria which have been shown to be working well. In fact, Keep Australia Beautiful's own figures in its KAB National Litter Index, show that litter in Victoria is less of a concern than in South Australia, where CDL has been in place for some time.

The additional costs to industry would be significant without demonstrable improvements in recycling. Again, this is an issue about not imposing further costs on business, especially where the current system has not failed. In fact, Victoria is a leader in Australia on recycling.