



**SUPPORTING COMPETITIVE
VICTORIAN INDUSTRIES**

FEBRUARY 2010

Ai Group Submission on 2010-11 Victorian Government Budget Priorities



SUPPORTING COMPETITIVE VICTORIAN INDUSTRIES

**Ai Group Submission on 2010-11
Victorian Government Budget Priorities**

FEBRUARY 2010



I am pleased to provide you with Ai Group's Submission to the Victorian Government on our Budget Priorities.

This paper and its findings have been presented to the Treasurer, the Hon John Lenders, and we look forward to the proposals being given positive consideration in the May Budget

Many of the ideas and suggestions come from discussions with Ai Group members including through State Council and National Executive and numerous member committees,

We believe they accurately reflect the views of Victorian and Australian industry.

We are conscious that the Budget may be more limited than in past years, but similarly, believe there are significant opportunities to reduce fees, taxes and regulation, and introduce projects which will benefit industry in general.

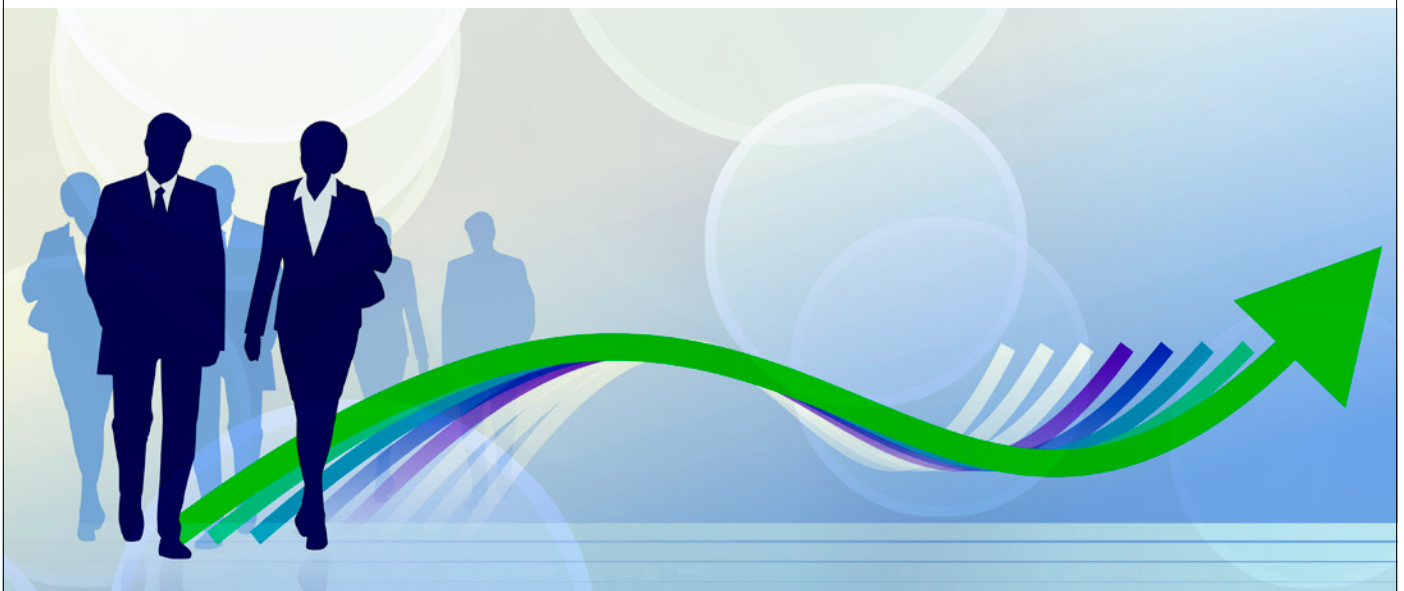
As always, we would be Interested in hearing your feedback.

Finally, may I wish you every success in your business through 2010 and Ai Group looks forward to working with you in the year ahead.

Best regards,

A handwritten signature in black ink, appearing to read 'H. M. Ridout', with a horizontal line underneath.

Heather Ridout
Chief Executive



EXECUTIVE SUMMARY

While the Victorian economy has weathered the heaviest impacts of the global financial crisis (GFC), the consequent downturn has had an impact on the State's economic performance and outlook.

In the short to medium-term, global demand for Victorian products and services will be held back by slow recoveries in most developed economies, in particular the US, the UK and European economies.

Domestic demand is also likely to be more subdued than in recent years, with consumer spending expected to be reined in, as households look to boost savings and cut back debt levels. Greater caution is also likely to be a common feature of future business expenditure decisions in the light of a weaker than pre-GFC global and domestic economic outlook.

As a result of this more subdued economic climate, over the next few years Victorian gross state product is forecast to grow at a rate slower than in the decade preceding the GFC.

The outlook is particularly uncertain for firms in Victoria's manufacturing sector - a key contributor to gross state production and employment. Competitive pressures from overseas are likely to persist, while local manufacturers face the prospect of a high Australian dollar exchange rate, underpinned by long-term Chinese demand for Australian commodities.

Ai Group believes the major challenge for the Victorian Government in constructing its 2010-11 Budget will be identifying measures that not only support industry in the aftermath of the GFC, but help ensure it is able to meet the challenges of the next 10-15 years. The key recommendations included in this submission seek to achieve this outcome.

Supported by a solid Budget position, Victoria is better placed than other Australian states to meet these challenges. The Government's Budget Update 2009-10 released in November forecast that Victoria is on track to post a surplus of \$262 million in 2009-10.

In the short-term, it is vital that local businesses are not subjected to the imposition of new business costs or an increase in government red tape. Subject to economic conditions in the first half of 2010, we also recommend that the Victorian Government maintain its process of reducing WorkCover premiums and payroll tax rates.

Victorian producers should be strongly encouraged to seek out international markets for their goods and services. This can be achieved through stronger Government commitments to existing export-oriented programs, including the Next Step Exporter Program, the Trade Fairs and Missions Program and the Post Market Support Initiative.

Victoria's long-term economic prosperity hinges on businesses and their employees becoming 'smarter'. This will require the Victorian workforce possessing world skills attained through high quality training programs and business having access to the most innovative technology and competitive operational processes available.

Future gains in the productivity and efficiency of Victorian business will also be driven by the degree to which they have access to world class transport links and infrastructure.

The construction of the National Broadband Network (NBN) and the growing reliance by business on state-of-the-art information communications technology provides Victoria with an excellent opportunity to utilise the State's burgeoning ICT sector to secure its future economic performance. Government policies must provide the appropriate level of support to this evolving industry.

Ai Group acknowledges that the Victorian Government has been a leader in areas such as skills & training; occupational health & safety; and innovation. We look forward to working closely with the Government to make further progress on these issues in 2010-11.

KEY RECOMMENDATIONS

Ai Group urges the Victorian Government to take the following key steps:

INDUSTRY POLICY

- Continuation of the Industry Transition Fund, with a greater focus on leading-edge technology; strategic & business planning; risk management; and supply chain collaboration.
- The need for VIPP plans to be provided prior to companies being shortlisted in a tender, to ensure they give due consideration to local content in Government procurement.
- Adoption of a value for money position with respect to Government procurement, with consideration given to the 'net community benefit' of purchasing Victorian and Australian goods.
- A more rapid upgrade of the Melbourne tram fleet, to provide greater certainty to those businesses which must invest in order to be a successful part of the tender.
- A mandate should be given to Victorian Government Departments, requiring decision-making processes to consider the use of locally manufactured products.

ICT SECTOR

- Use the NBN as a platform to help secure the future performance of the State's economy and create new jobs.
- Ensure legitimate concerns over privacy are addressed in order to better integrate health and aged care services and focus on preventive health.
- Work with Ai Group in managing the use of ICT for supporting the State's electronic medical records.
- An initiative to focus and help industry understand security risks and how they can protect themselves online.
- Incentives to improve the flow of private capital to innovative businesses.
- Initiatives to develop and spread the extensive range of skills needed for the exploitation of ICT opportunities.
- Explore ways to look at the ICT sector in a more disaggregated way.

BUSINESS COSTS & REGULATION

- A further reduction in average WorkCover premiums in 2010-11.
- A cut in the payroll tax rate from 4.95 per cent to 4.75 per cent from July 2010.
- The payment of the Fire Services Levy through local council rates, rather than by businesses which are already covered by appropriate fire insurance policies.
- Maintain commitment to reduce the regulatory burden placed on Victorian businesses.
- The introduction of a Green Door policy to develop certainty for investment in significant projects, primarily aimed at 'Green' projects but also where other likely Victorian projects could be given greater certainty.

TAXATION & FEDERAL-STATE RELATIONS

Involvement in a national effort to:

- Remove the most inefficient state and territory taxes;
- Improve the design of other taxes; and
- Harmonise the major tax bases across the Federation.

OCCUPATIONAL HEALTH & SAFETY AND WORKERS COMPENSATION

- Work towards ensuring the proposed national Safe Work laws are implemented from the end of 2011.
- Fully participate in proposed program to harmonise workers compensation laws through the process of Safe Work Australia.
- Development of the WorkHealth program to ensure every working person in Victoria is offered a health check.

KEY RECOMMENDATIONS

EXPORTS

- To complement existing export programs, the establishment of a Post Market Support Initiative, with grants capped at \$5,000 per company on a dollar for dollar basis and only eligible to companies who have participated on a Victorian Government lead export initiative, such as a trade mission or the First Step Exporter program.
- Greater assistance to companies in arranging pertinent first points of contact with potential buyers in overseas markets.
- The expansion of the Trade Fairs and Missions Program.

SKILLS & TRAINING

- Proceed with the Skills Reform as scheduled; ensuring a rigorous monitoring process is undertaken in both a formative and summative manner.
- Implement the recommendations of the COAG Apprenticeship Taskforce as a matter of priority.
- Contribute to the National Workforce Literacy Strategy by providing training assistance in the area and considering the trial of a workplace literacy entitlement.
- The implementation of measures to provide all students with the opportunity to participate in vocational programs.

ENVIRONMENT, ENERGY, WATER & WASTE

- The delivery of a comprehensive and coordinated package of services to help businesses implement their own carbon management strategies, including practical briefing sessions; a strategic communications program; and networking events.

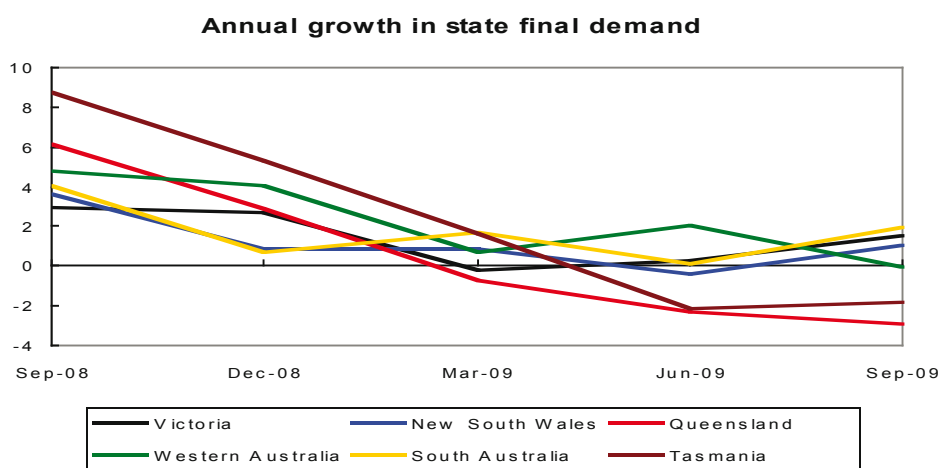
The implementation of:

- A practical, industry-based energy efficiency training program;
- An expanded program to support the transition of supply chains to a low carbon future;
- A coordinated procurement policy across government;
- The implementation of climate change agreements with industry to encourage proactive measures to be taken in pursuit of climate change adaptation by industry;
- The establishment of a specific fund to provide financial assistance to businesses seeking to implement water efficiency projects; and
- The formulation of waste management strategies that achieve net community benefit, underpinned by detailed and specific cost benefit analysis.

THE VICTORIAN ECONOMY & OUTLOOK

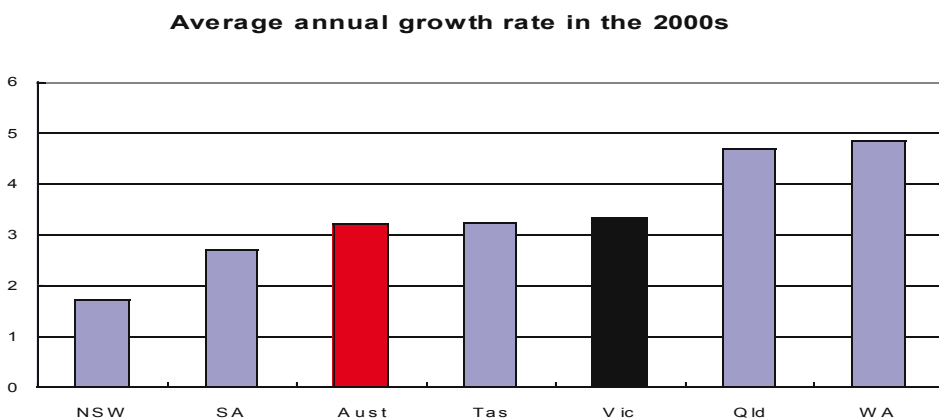
Victoria's economic performance has improved since reaching a trough in March quarter 2009. State final demand growth has lifted moderately, reaching a rate of 1.6% over the year to September 2009. This was the second highest growth rate among the states. Victoria's unemployment rate has eased, falling to under 5.5% in the second half of 2009.

Chart 1: Recent state final demand performance



In terms of gross state product, over the 2000s Victoria's average annual growth rate was 3.3%. This performance is significantly better than that of NSW and South Australia. The resources states of Queensland and Western Australia have performed more strongly than Victoria, but this largely reflects the benefits of the mining boom on those states' investment levels and manufacturing's larger share in Victoria.

Chart 2: Victoria's relative growth performance in the 2000s



During 2008-09, Victoria's gross state product grew by 0.8%, significantly better than that of NSW at 0.2% and the mining states which felt the impact of slower Chinese demand for commodities. The improvement in Victoria's domestic demand growth since early 2009 reflects public and household consumption spending, a small contribution from dwelling investment, as well as private business investment growth.

Economic policy stimulus, at the state and federal level, has provided important support for this improvement.

For the outlook, Victoria's economy remains affected by the impact of competitive pressures on manufacturing which are likely to persist. In particular, manufacturers are likely to be faced with a higher than historical average exchange rate, as China's long-term demand for Australian commodities boosts Australia's terms of trade.

Victorian manufacturers have been impacted by the continuing strength of the Australian dollar in regards to both their export position and when competing with imports. Obviously, the strength of the dollar has made exporting more difficult. Although this has not prevented companies from remaining positive regarding their outlook, they have had to create new efficiencies in order to compete. Some have successfully achieved those efficiencies and retained their margins, while others are in a more precarious situation.

Competition with imports is equally as concerning. The GFC and the continuing strength of the Australian economy have meant that Australia's market has been even more attractive to overseas competitors. The normal competitive situation has been exacerbated by overseas companies viewing the Australian economy as a new marketplace. Overseas firms have also been willing to reduce their margins in order to maintain turnover. This has caused greater local competition and become an issue beyond simply the strength of the Australian dollar.

Ai Group notes the current Victorian government forecasts for modest growth of 1.5% in 2009-10 and 2.5% in 2010-11. A number of risks remain to this improvement in Victoria's economic outlook.

Uncertainties remain as to the strength of the global and Australian recoveries. This is particularly important given the likelihood that the impact of stimulatory economic policy measures will decline and provide weaker stimulus to growth over 2010.

Ai Group's monthly Australian Performance of Manufacturing Index (Australian PMI®) pointed to a further deterioration in conditions in the Victorian manufacturing sector in the second half of 2009. In part, this reflected higher interest rates and the high exchange rate, but also some easing in new orders.

On the upside, growth may be stronger than expected if China's economy continues to accelerate and boost Australia's terms of trade and thus incomes growth.

The recovery of the stockmarket and housing prices and their associated positive impact on household wealth and confidence may also see stronger consumer demand, particularly if the spectre of higher unemployment continues to fade.

As the economy gains speed over the next 18 months, a risk to growth will be a tighter labour market as unresolved long-term skills shortages reappear and put upward pressure on wages growth and inflation.

Recognising the risks to the economic outlook Ai Group expects that Victoria's budget will remain in a sound position over the next few years.

As well as an improved economic outlook this reflects the Government's sound approach to financial management as well as a contribution from Commonwealth infrastructure funding. Revenues, subject to the above risks, should remain solid in line with modest economic growth.

While it should remain cautious about ongoing risks, this places the State Government in a sound position to continue its productivity-enhancing infrastructure development and policy reform which will support sustained economic growth in Victoria by boosting industry competitiveness.

INDUSTRY POLICY

While most sectors of the Victorian economy have managed to navigate their way through the global financial crisis, firms look forward to a more constrained economic environment. As such, Ai Group believes it is an appropriate time for the Victorian Government to implement measures that will significantly enhance the global competitiveness of local industries. This is particularly important in the manufacturing sector where global competition is intense.

In our submission to the development of the Victorian Industry and Manufacturing Statement, Ai Group proposed a strategy aimed at enhancing the international competitiveness of Victorian manufacturing. The subsequent Victorian Government Industry and Manufacturing Statement, released in November 2008, outlined a number of positive actions which Ai Group had been strongly advocating.

INDUSTRY TRANSITION FUND

Key amongst these was the introduction of a two-year, \$50 million Industry Transition Fund. Since its implementation, the Transition Fund has provided vital assistance to a number of companies viewed as being important to the long-term economic position of Victoria.

It has enabled a number of companies to take the next technological step to expand their market opportunities and enabling new orders to be created.

Although the ITF was introduced only for two years, there is no doubt that a continuation of this fund (or similar) is important to the wellbeing of industry. Victorian businesses need support to remain competitive and assistance for capital expenditure opportunities. It will also enable a new generation of machinery and technology to be purchased, and introduced to the State, which is vital to the wellbeing of some companies.

Despite a reasonable Victorian economy, the fragility of manufacturers, in particular, should be recognised through a fund similar to the ITF. This is vital to the Government's overall support of the State economy.

And Ai Group is aware that in some circumstances, there can be flow-on consequences to other manufacturers within the State. A 'real life' example is the purchasing of new machinery by Victorian company A from Victorian company B. In this scenario, the Government's support has a flow-on impact beyond individual companies.

Ai Group believes that the ITF must be maintained and that its effectiveness can also be improved by other additional measures including:

- Maintaining a leading-edge technology focus through the application of more high-end, manufacturing specific R&D;
- Encouraging companies to conduct a global search for, and an uptake of, the next generation of product or process technology relevant to their segment of the market;
- Implementing a robust and comprehensive approach to funding for strategic and business planning assistance, thereby ensuring a medium to long-term commitment;
- Providing genuine support for industry rationalisation or the forming of alliances;
- Supporting the development of a robust and practical risk management plan;
- Providing assistance to access defined opportunities (i.e. rail rolling stock); and
- Supporting effective supply chain collaboration.

VICTORIAN INDUSTRY PARTICIPATION POLICY

Another positive action of the Industry and Manufacturing Statement was the strengthening of the Victorian Industry Participation Policy (VIPP) and, as an example of its value, a commitment to ensuring significant local content through a round of transport infrastructure stock purchases.

The changes made to VIPP in July 2009 were inherently important to industry. Also, the Government accepting the need to have Projects of Strategic Importance will provide a benefit to local industry. However, Ai Group continues to

believe that VIPP plans provided by tenderers should be offered prior to the short listing of those tenderers. This will help ensure that local content in Government procurement is given due consideration by tenderers.

The Government must be commended for its evolving policy to support local procurement.

GOVERNMENT PROCUREMENT

Ai Group supports a 'value for money' position being adopted by Government with respect to its procurement. However, that 'value for money' position must consider the 'net community benefit' of purchasing Victorian and Australian, and ensure issues such as taxation, potential welfare payments, skills retention and development of Australian industry are taken into account. It must consider a whole of life scenario and not only take account of the initial purchase price of any goods.

The Victorian Government must also be clearer in its support for local procurement in Government purchases. This should be achieved by the Government ensuring all Government departments use Australian manufactured goods wherever it is economically and socially reasonable to do so.

The Government could also bring forward spending and ensure small Government procurement projects also incorporate Australian products. Government Departments have not sufficiently supported Victorian and Australian businesses. They must be given a mandate to do so and be required to consider locally manufactured goods as part of their decision-making process.

An example of where Government could assist industry by bringing forward spending, or at least committing to forward spending, is with the most recent tender for trams in Victoria. Currently, the tender is for 50 trams over a five year period, ie 10 trams each year. Whilst this is important, it leaves companies uncertain regarding the long term consequences of significant investment in their businesses, such as for retooling purposes and companies must second-guess the Government's future intentions. The Government should accept the need to upgrade the Melbourne tram fleet more rapidly and therefore provide certainty to those businesses needing to invest to be a successful part of the tender.

TRANSPORT INFRASTRUCTURE MANUFACTURING SCHEME

The Transport Infrastructure Manufacturing Scheme (TIMS), supported by the State Government in the 2009-10 Budget, has already borne fruit for industry. Victorian representatives of TIMS have met with most other State Government representatives to explain the Victorian initiative and plan to develop a rail rolling stock industry across Australia. The Victorian Government leadership in this area has also encouraged the Federal Government to develop a more proactive national position. This will enable the States to recognise the expertise in each of the States and to work together to create business opportunities arising from the significant Government procurement in this area.

Further, there is no reason why, with economies of scale created by State Government expenditures, that Australia cannot develop an export industry as suppliers to large overseas manufacturers.

ICT SECTOR

Information and Communication Technology (ICT) already plays a fundamental role in driving industry development and productivity in Victoria's industries - from manufacturing and services to logistics, health, mining, and agriculture. Continuous improvement in ICT is a crucial determinant of Victoria's success in contributing to overall Australian economic productivity and on the world economic stage.

NATIONAL BROADBAND NETWORK

Ai Group believes that the Victorian Government should use the National Broadband Network (NBN) as a platform to help secure the future performance of the State's economy and create new jobs. Ai Group's own research suggests that two thirds of Australian businesses expect to benefit greatly from the spread of high speed broadband.

Ai Group, however, encourages the Victorian Government to maintain a balanced view and industry development for both fixed line infrastructure such as the NBN and next generation mobile networks (fourth generation) infrastructure.

It is important that industry can follow the Victorian Government's lead and start to envisage applications and new business models that will thrive in the high speed broadband future in both fixed-line wired and mobile wireless infrastructure equally.

HEALTH SYSTEM

Technology-enabled infrastructure, or smart infrastructure, is a way to deliver improvements in health services in particular with efficiencies that may benefit the state and national economies.

The support of a national electronic medical record system, for a start, may deliver an integrated healthcare system and address much inefficiency such as duplication of records and missing data.

Ai Group encourages the Government to ensure legitimate concerns over privacy are addressed in order to better integrate health and aged care services and focus on preventive health.

Electronic records represent only one aspect of the way smart technologies could assist in delivery of better health outcomes. Ultimately, a more intelligent health system will improve the speed and quality of treatment and help take the pressure off hospitals.

Ai Group would also like to work with the Victorian Government in managing the use of ICT for supporting electronic medical records.

INFORMATION SECURITY

Effective e-security and secure digital systems to prevent cyber crime will make an important contribution to Victoria's future economic strength. With this in mind, serious attention should be paid to this area as part of the Victorian Government's blueprint for a digital future.

An initiative is needed to focus and help industry understand e-security risks and how they can protect themselves online. Industry awareness of e-security issues needs to be raised and a process found to help companies bolster their armoury against the escalating levels of cyber espionage and internet crime that are viewed as potent threats to company security.

Digital technologies are able to transform healthcare, revolutionise education and provide a pivotal infrastructure to transform the new digital economy. An e-security agenda aimed at industry in an environment of changing technologies requires a clear focus for ensuring that these opportunities are maximised.

INCREASED INVESTMENT

ICT start-up businesses face a funding drought. While government-funded programs have benefited small-to-medium-enterprises, their success in achieving sustainable growth is difficult to measure, and the temporary benefits that such programs offer can often result in time wasted on endless funding applications.

The Government may consider a more significant way to encourage investment is via incentives to improve the flow of private capital to innovative businesses.

EDUCATION AND SKILLS DEVELOPMENT

Education and skills development is also fundamental to any strategy that will support a successful ICT innovation framework. The Government can help to create a more flexible and productive workforce.

To generate these productivity benefits through new infrastructure such as the NBN, we need not just the physical infrastructure but also the development and spread of an extensive range of new skills needed for the widespread exploitation of the opportunities. This means additional private and public investment in developing consumer, workforce and business skills.

DISAGGREGATING ICT INDUSTRY

Ai Group encourages the Government in general to look in a disaggregated way at specific sectors, such as telecommunications services; software and services; and technology hardware and equipment. Business needs can vary significantly across sectors which are otherwise too often confused with the simplistic ICT label.

Understanding the specific needs of different sectors will assist SMEs by ensuring approaches to education and skills development are more closely aligned to their needs. It could also redress the chronic lack of investment across ICT innovation.

BUSINESS COSTS & REGULATION

Ai Group acknowledges that the GFC has punched a large hole in Victorian Government revenue and while it continues to encourage the Government to make further reductions in payroll taxes and WorkCover premiums; it acknowledges the constraints on this.

Given the modest outlook for the Victorian economy, and the challenges faced by industry, Ai Group strongly believes that the environment is not appropriate for the imposition of new business costs or an increase in government red tape.

WORKCOVER PREMIUMS

Ai Group recognises the Victorian Government's strong commitment in recent years to reducing average WorkCover premiums.

The Victorian WorkCover Authority (VWA) remains in a strong operational position, boosted by a positive performance from insurance operations (PFIO) result of \$277 million in 2008 09. With workplace injury claims falling from 11.10 to 10.80 per 1,000 workers (the lowest rate in Australia), Ai Group believes there is scope for the VWA to make a further cut in average premiums in 2010 11.

Reductions in WorkCover premiums are an equitable way of returning funds to businesses, with all businesses across the State sharing in the benefit. In turn, this helps secure the Victorian jobs.

PAYROLL TAX

While Ai Group commends the Victorian Government for steadily lowering the payroll tax rate since assuming office, it has been our long-standing view that the rate should be cut to 4.75 per cent.

With the payroll tax rate having been left unchanged at 4.95 per cent in the 2009 10 Budget, Ai Group believes the Victorian Government should implement a 0.20 percentage point cut, effective from 1 July 2010.

FIRE SERVICES LEVY

Ai Group has strongly argued that the State's Fire Services Levy is an unreasonable imposition on Victorian businesses and is pleased the Government is currently in the process of reviewing the model.

The Levy, in its current form, creates a burden on companies which are already protecting themselves and their employees through their insurance policies. It is important to the Government and the community that insurance coverage is taken by companies, yet whilst this is considered prudent, this prudence is subjected to additional charges such as the Fire Services Levy.

The levy can almost double the cost of insurance in Victoria and inevitably forces potential insurers to question the amount of insurance they take or discourages them from taking insurance at all. It is entirely counter to the Government's pursuit of 'user pays' principles. The user of the fire service in the community is the community and the community in general should be paying for the services.

Ai Group proposes, as an alternative, the payment of the levy through local Council rates, although there are other means by which the levy could be split across the entire community to develop a more equitable approach.

REGULATORY BURDEN

Victoria has a commendable record for being at the forefront of attempts to reduce the administrative and compliance burden on business. This process is continued by the Victorian Competition and Efficiency Commission's inquiry into Streamlining Local Government Regulation, which Ai Group strongly supports.

Ai Group supports the Major Transport Act as an example of streamlining approvals and unlocking investment on structural barriers and making Victoria better for investment.

Ai Group views that Act as a potential model for other approvals and presentation changes not just simply for transport. Victoria is currently viewed as slow in planning and other approvals when compared with other States within Australia. We suggest the Major Transport Act as a model for the Green Door approach, as raised in a number of forums last year, including the Premier's Green Jobs Summit.

In relation to the Green Door approach to assist the planning mechanism, consideration should be given to a single Minister for multiple Acts, including statutory deadlines in decision-making which are important to maintain certainty. Consolidated Appeal mechanisms should also be considered for all major projects, not only but also including Green projects.

Victoria needs to maximise its share in Green jobs resulting from the Commonwealth Renewal Target Scheme. In order to do this it must make investment relatively straightforward and its processes certain.

Ai Group supports the Green Door for all green projects but believes this should also include natural gas and clean coal projects.

It also commends a similar approach be considered for all major projects in Victorian in order to encourage investment.

The Green Door commitment, would be a welcome part of the Government's intended Climate Change Bill.

Ai Group members working across State boundaries are particularly keen to see the new OHS regulations confirmed, to have compatible environment regulations – including the use of water – and to have consistency of regulations enhanced by all State Governments.

Ai Group encourages the Victorian Government to maintain its commitment to reduce the regulatory burden placed on business.

TAXATION & FEDERAL-STATE RELATIONS

The final report of the Review of Australia's Future Tax System (AFTS), which has been asked to consider all levels of taxation in Australia, is expected to be available ahead of the Budget.

Ai Group urges Victoria to make best use of the opportunities presented by the review and subsequent policy development to take a leading role in securing improvements to the pattern of taxation in Australia and in Victoria.

There are high expectations of the AFTS Review particularly in relation to taxes levied by the states and territories. While some of the more inefficient taxes levied by the states and territories have been removed (or are scheduled for removal) in the wake of the introduction of the GST and while Victoria has been a leader among the states and territories of this reform episode, the overall pattern of taxation levied by the states and territories remains in need of major overhaul.

The most evident shortcomings include:

- The use by the states and territories of highly inefficient and narrowly based taxes, such as stamp duties on conveyances, taxes on insurance, etc;
- The poor design of state and territory taxes that could serve as efficient sources of state and territory revenue;
- Poor design of taxes and charges on transport and lack of coordination between these and transport policy objectives (the transport fuel taxes levied by the Federal government are part of this shortcoming); and
- The differences between the states and territories in the design and administration of taxes that add compliance costs for businesses operating in more than one jurisdiction.

There is considerable scope to improve the pattern of state and territory taxation while maintaining, and indeed improving, the ability of individual states or territories to vary the level of their own-source tax revenues in order to meet their policy objectives. For greatest effect, this scope for improvement will require a national effort to facilitate:

- The removal by the states and territories of their most inefficient taxes;
- A concerted effort by all states and territories to improve the design of the taxes that can serve as efficient sources of revenue at the state and territory level;
- A national effort to overhaul taxation of transport to better align it with transport policy objectives;
- A harmonisation of the bases of the major taxes across the federation;
- Appropriate centralisation, at a national level, of administration and collection of taxes; and
- Ongoing intergovernmental arrangements to maintain and improve the quality of state and territory taxation.

In recent years, Victoria has taken steps to improve its tax system:

- Victoria has gone from levying a higher level of taxes on a per capita basis compared with the average of other states and territories to levying less than the average.
- Victoria has removed its financial institutions transaction taxes and a range of minor stamp duties. This was facilitated by agreements between the states and territories and the Commonwealth Government related to

While it has taken this leading role, it has nevertheless increased its reliance on inefficient taxes:

- Between 1998-99 and 2007-08 stamp duties on conveyances increased at an average annual rate of almost 12.9%;
- Over the same period, taxes on insurance increased at an average annual rate of 9%;
- The revenue Victoria raised from the infamous fire insurance levy increases at an annual average rate of 9.8%.

These annual average rates of increase are well over double and triple the annual average rate of growth of Victoria's total own-source tax revenue (3.7%) in the same period.

In 1998-99, Victoria raised 24¼% of its own source tax revenue from taxes on financial and capital transactions. These taxes are notoriously inefficient and this category of taxes received priority in the GST-related reforms aimed at improving the pattern of state and territory taxation. Yet in 2007-08, taxes on financial and capital transactions accounted for a higher proportion (over 29%) of Victoria's own-source tax revenues than they had a decade previously. This was despite the removal of financial institutions transaction taxes and a range of minor stamp duties mentioned above.

Furthermore, the State's reliance on taxes on insurance, which also rank among the most inefficient, also rose over the years 1998-99 to 2007-08 and the combined share of the State's taxes derived from the particularly inefficient classes of taxes levied on financial and capital transaction and insurance increased from 30% to 38%.

In summary, even though it has been at the forefront of state tax reform, there are good reasons to think that, even in Victoria, the pattern of taxation has got worse rather than better over the past decade.

OCCUPATIONAL HEALTH & SAFETY AND WORKERS COMPENSATION

In recent years, the Victorian Government has been a strong driver of improvements in the area of occupational health & safety (OHS) and workers compensation. The Victorian Government played a major role in the recent process of harmonising state OHS laws. The State's WorkHealth program, which the Prime Minister has suggested should be extended federally, has also provided benefits to Victorian businesses and their employees.

Ai Group looks forward to maintaining its close working relationship with the Victorian Government on the topic of OHS and workers compensation in the coming years.

HARMONISATION OF OHS LEGISLATION

Ai Group continues to urge all State Governments to support the harmonisation of Australia's disparate occupational health and safety systems.

Ai Group congratulates the State Government, in particular, the WorkCover Ministers, who have pursued harmonisation of OHS and encouraged State bureaucrats to be believers in this area. That Victorian Government position has been instrumental in the development of new national OHS laws.

There is overwhelming support amongst members for a harmonised set of national OHS laws. The implementation of a nationally consistent regulatory regime will massively reduce complexity for businesses, allowing firms to concentrate on providing safe workplaces rather than working out how to comply with up to nine different legal systems.

Ai Group urges the Victorian Government and WorkSafe to work hard to ensure the proposed national Safe Work laws are implemented in Victoria from the end of 2011 in a way that is effective in improving safety outcomes, and provides a truly consistent national regulatory regime both in terms of legislation and enforcement behaviour.

HARMONISATION OF WORKERS COMPENSATION LEGISLATION

Late in 2009 Safe Work Australia agreed to commence with the process of harmonising state workers compensation laws.

Ai Group strongly encourages the Victorian Government to participate fully in the proposed program to harmonise workers compensation laws through the processes of Safe Work Australia. The Government should focus on ensuring that the proposed national laws are effective in improving return to work outcomes, cost levels and providing a nationally consistent system, particularly for companies operating across state borders.

WORKHEALTH PROGRAM

Ai Group has supported the Government's WorkHealth program, which has provided Victorian employers with the opportunity to (1) offer workers a free and confidential health check to help them understand their risk of heart disease and type 2 diabetes; and (2) receive grants for existing workplace health promotion activities.

Ai Group supports the Victorian Government's initiative to develop the program so that every working person in the State will be offered a health check.

SKILLS & TRAINING

VICTORIAN SKILLS REFORM

The Victorian Government, over the course of 2009, has been progressively implementing its Skills Reform program. These reforms will significantly change the nature and shape of the Victorian training system and address many of the challenges currently confronted by both industry and individuals.

It is the view of Ai Group that the government should proceed with these reforms as scheduled but ensure a rigorous monitoring and evaluation process is undertaken in both a formative and summative manner. The most critical component of this evaluation is the Skills for Growth program, along with other demand stimulus measures. The ability of this component of the program to be effective and responsive is critical to ensuring a broad range of employees, through their enterprises, are able to access both skilling and upskilling.

COAG APPRENTICE TASKFORCE

Ai Group supports the recommendations of the COAG Apprenticeship Taskforce and urges Victoria, in conjunction with other jurisdictions, to implement the recommendations as a matter of priority. It is essential that apprenticeship reform is delivered in a timely and effective manner to support other state and commonwealth initiatives to bolster trade apprentice commencement rates. The consequences of inactivity in this area will be another generation of capacity constraining skill shortages.

IMPROVING QUALITY

As improvements in economic conditions firm, attention needs to be turned to ensuring that Victoria has the skills which will be needed to maximize the benefits to the state of the recovery.

Concern over quality is arguably the most important issue facing the Victorian vocational education and training sector at this time; too often the training delivered is quick and shallow and the trainers lack the expertise needed to contribute to the building of a workforce with world class skills.

Our view is that significant improvements in quality are most likely to be achieved through the establishment of a truly national vocational education and training regulator. Whilst Victoria has opted to not be a foundation member of the national regulator, instead to introduce mirror legislation, Ai Group encourages that this position be closely monitored and evaluated over the next two financial years.

The national regulator will need to be supported by good data on quality, appropriate quality drivers and ensure a key role for industry – which is the end point of vocational education and training. This data must span all sectors of the training market and be AVETMISS compliant. This should be supported by clear structural and governance arrangements which are national in their breadth with local application.

WORKFORCE LITERACY

It is clear from the Adult Literacy and Lifeskills Survey (2006) and other research that there is a significant issue in relation to low levels of workplace literacy and numeracy in Australia.

There are many Victorians below “the minimum required for individuals to meet the complex demands of everyday life and work in the emerging knowledge based economy.” Specifically, 48.8% of adult Victorians are below the level required for prose literacy and 49.2% for document literacy. The statistics are even worse for numeracy (54.4%) and problem solving (70.7%). This data relates to the adult population and translates into significant concerns about the levels of literacy and numeracy within the Victorian workforce.

Employers increasingly seek to upskill their own workforces as the greatest single measure to improve their competitiveness. They are hampered by low levels of workforce literacy and numeracy in the achievement of this.

It is essential that the government embrace a literacy and numeracy strategy to improve these levels within the workforce and their impact on productivity. The Victorian Government should contribute to the call for a national workforce literacy strategy. It should also look to provide training assistance in this area and consider trialing a workplace literacy entitlement.

VOCATIONAL EDUCATION IN SCHOOLS

Recent data suggest that participation by senior secondary students in vocational programs has plateaued. Measures need to be considered to provide all students with the opportunity to participate.

In addition the recent Commonwealth decision to remove Local Community Partnerships has placed the provision of Structured Workplace Learning in jeopardy. It is no longer clear how this service will be provided into the future. Industry has long considered that workplace experience is a key ingredient in the quality of school vocational programs.

EXPORTS

Ai Group continually receives feedback from small to medium-sized firms in particular (less than 100 employees), concerning the difficulty of both entering, and becoming entrenched in export markets. There is a fear that by shifting focus they may in fact be placing their domestic market at risk. These difficulties encompass human resource issues, market research, and a general lack of know-how in developing and implementing export strategies.

Research by Austrade also shows that a minority of firms has a long term commitment to exporting, with only 2% of all Australian business expressing an intention to export within three years. Ai Group recommends that the Victorian Government consider the following proposals for assisting exporters in accessing new markets:

FORMS OF ASSISTANCE

Many of the current forms of assistance, such as the First Step Exporter and the Collaborative Marketing Grant are what companies need to help them access new markets. However many of our members do not apply for these grants due to the time consuming nature of the application process. The process does not respond well to the dynamic nature of international trade and should be simplified and the processing time reduced to encourage more companies to access these grants.

To complement the existing programs such as First Step Exporter and the Trade Fairs and Missions program, Ai Group proposes the establishment of a Post Market Support Initiative. This initiative, similar to that run in NSW, would provide exporters with the resources to adequately follow up on market visits and successfully convert potential business into sustainable business.

Ai Group proposes that grants be capped at \$5,000 per company on a dollar for dollar basis and only eligible to companies who have participated on a Victorian Government lead export initiative such as a trade mission or the First Step Exporter program.

'FIRST CONTACT'

Anecdotal evidence from small businesses which are seeking to export, also suggests that companies find it difficult to arrange pertinent points of contact with potential buyers in overseas markets. Some companies are forced to use agents where they have little knowledge of that agent's expertise in arranging suitable meetings whilst others find it difficult to develop contacts with agents in the specific area. Industry would find it valuable to have assistance in developing those first points of contact.

TRADE FAIRS AND MISSIONS PROGRAM

Ai Group encourages the Government to consider trade missions that cover many industries that are linked by a common theme, such as security or design, and to support missions that are dedicated to accessing Global Supply chains. For example, in order to export to automotive companies in Thailand, visits also need to be made to Procurement Managers located in various regional centres. Companies may also need to meet with potential partners with whom they can work to supply product. This would require a reclassification of missions from a market visit to a tour of a number of markets and include the search for strategic partnerships.

Funding for missions should also include strategic meetings with mission participants prior to the visits to enable best use of the meetings. Companies and individuals engaged before the mission invariably become better prepared and have a better sense of how best value can be extracted from the visit. It can also assist in focusing the needs of both mission participants and those companies being visited.

In addition, Ai Group supports the expansion of the program to include market research and R&D missions. An important aspect of benchmarking your company to world competitive standards is to visit other markets to observe best practice in action as well as to exchange ideas and information with peers in foreign industries. These missions could be based around common themes that cross a number of industries (i.e. environmental strategies for manufacturers, product development, etc).

Product showcases rather than missions may be the best avenue for niche products. As the companies in these niche industries are often micro-sized companies, a product showcase where they share a stand without necessarily travelling to a trade fair can be a cost effective and productive venture.

ENVIRONMENT & ENERGY

Ai Group recommends that Victoria's climate change strategy be developed as part of a comprehensive industry strategy which consolidates and strengthens policy activities under four major streams of support:

- fostering global engagement;
- enhancing innovation and the adoption of advanced technologies;
- building skills and capabilities; and
- adopting environmentally sustainable production processes.

There is an important role for the Victorian Government in supporting businesses and industries to manage the transition to a low carbon economy, including providing information on energy efficiency, resource efficiency and new technologies and services; providing support for innovation, investment attraction and export development; and developing action plans and strategies for particular industries.

CARBON MANAGEMENT

The results of the Ai Group/KPMG survey Gearing up: Business Readiness for Climate Change highlight the important role which exists for Government, in partnership with industry associations, to promote and accelerate the uptake of initiatives by businesses to effectively manage their carbon footprint. Ai Group recommends delivery of a comprehensive and coordinated package of services to implement carbon management strategies to reduce the carbon intensity of their operations.

IMPROVING BUSINESS UNDERSTANDING OF IMPLICATIONS AND OPPORTUNITIES

A majority of Australian businesses are yet to implement effective strategies to measure their carbon footprints. Further, more than one quarter of businesses have no plans to measure their carbon footprint and around 15% of businesses have no plans to reduce their direct emissions, energy overheads or per unit energy use over the next three years.

Ai Group recommends that this be addressed through the following initiatives:

- Delivery of practical briefing sessions across metropolitan and regional areas to redress the limited understanding by businesses of their greenhouse impact and appropriate responses;
- Implementation of a strategic communications program providing practical information and guidance on the opportunities which exist for business to improve their carbon management; and
- An expanded range of practical networking events, building on the success achieved by Ai Group's Environmental Solutions Forums, to bring together companies that face environmental challenges with those that provide environmental solutions.

DEVELOPMENT OF CARBON MANAGEMENT STRATEGIES

The widespread lack of understanding by businesses of the implications and opportunities associated with climate change and climate change policies is compounded in many instances by lack of internal management resources with environmental expertise.

In particular Ai Group's Survey, Environmental Sustainability in Industry, found that 54% of firms had no staff with environment responsibilities. This perceived lack of environment skills within businesses severely limits their ability to identify and implement opportunities for improved environmental management and carbon abatement.

There is the opportunity in Victoria to provide efficient and direct support to the manufacturing sector to ensure that the industry remains highly competitive in Victoria. To address this barrier, Ai Group recommends introduction of the following initiatives:

- Practical, industry based energy efficiency training program for businesses to build up expertise in assessment of risks and opportunities associated with climate change, including development and implementation of an energy savings plan;
- Tailored on-site assistance to facilitate improved carbon efficiency by small and medium enterprises through the development of an early action energy efficiency strategy which identifies and prioritises initiatives for reduction of energy consumption and greenhouse gas emissions;
- Advice and assistance on establishing internal monitoring and reporting systems to support on going improvements in energy efficiency; and
- Funding support for the trial of solutions to environmental challenges for companies, sectors and supply chains.

CLIMATE CHANGE AGREEMENTS

The Government should consider how to implement climate change agreements with industry to encourage proactive measures to be taken in pursuit of climate change adaptation by industry and a better environmental outcome within the Government's initiatives.

These voluntary agreements, which could be given legislative backing, would provide incentives to industry to adopt environmental adaptation initiatives which are in line with Government targets. The agreements could include:

- Water saving targets;
- Energy saving targets;
- Introduction of environmentally-friendly energy initiatives; and
- Reduction of greenhouse gas emissions, which could include measurement of emissions and Government recognition of improvements made by industry.

Companies at different levels could be provided with Government incentives which would necessarily, but not only include financial assistance from Government. Government recognition of improvements, delivery of the criteria in the agreements and how they have assisted Government programs, could all be helpful to encourage industry to be proactive in developing their own climate change adaptation techniques.

Government should also not be reluctant to assist individual companies and industry in general to provide financial assistance where savings will directly assist the Government's own programs.

Ai Group supports the partnership approach with respect to climate change imperatives in Victoria. Ai Group has a strong history of working collaboratively with Government in climate change issues.

The Sustainability Covenant undertaken in conjunction with the EPA is an excellent example of the collaborative nature of Ai Group.

Ai Group views in relation to the above were recently extrapolated in the Government's Climate Change paper which we believe did not recognise the impact on industry of climate change and did not take account of many other subsidiary effects.

Ai Group supports development of formal, voluntary Climate Change Agreements between Government and industry sectors and individual companies to help prioritise actions and work in partnership to respond to climate change.

A suitable Climate Change Agreement, in line with those operating in South Australia and Toronto, could be appropriate to be introduced in Victoria in preference to introducing prohibitive regulations or contracts.

TRANSITIONING SUPPLY CHAINS

Processes, and their emissions, do not occur in isolation but are part of supply chains. Looking at the supply chain can help companies understand their impacts across the life cycle of products. This allows companies to prioritise areas where significant reductions in impacts can be achieved and potentially large financial benefits gained. By considering environmental impacts across supply chains this approach can ultimately help companies make more informed and better decisions in product manufacturing, purchasing, distribution and product development.

Ai Group's Road to Sustainability report identified that less than 20% of companies gave consideration to lifecycle environment impacts of products for all or most of their new products, with 46% making no assessment and a further 22% unaware of whether their company undertook such assessments. The survey further identified that more than 70% of businesses did not engage their suppliers to assess the impact of their products on the environment with a further 7% unable to comment. Ai Group's Gearing Up study found that just 13% of businesses are managing procurement as a means of reducing their carbon footprint and that this strategy is more favoured by service businesses than by manufacturers.

Ai Group and Sustainability Victoria have jointly embarked on the delivery of a Supply Chain Project which will focus on reducing carbon across the supply chain for iconic products in the Victorian food sector. The objective of the Program is to help Victorian industry to prepare for a carbon constrained economy by taking a holistic approach to reducing the environmental impacts of products, processes and services across the supply chain. The underlying strength of this program is a business to business approach that provides the unique opportunity for efficient and effective industry reach. Importantly, backing from the Victorian Government provides a trusted endorsement of the program.

Ai Group recommends implementation of an expanded program to support the transition of supply chains to a low carbon future in key industry sectors. By considering environmental impacts across supply chains this approach can ultimately help businesses make more informed and better decisions in product manufacturing, purchasing, distribution and product development.

GOVERNMENT PROCUREMENT

Opportunity exists for the Victorian Government to use its purchasing processes to encourage innovation. The Government has a role to play in supporting Victorian businesses to overcome barriers to innovation, not only by sharing the risk of being 'first movers' in taking up new technologies, products and services as identified in the Green Paper (page 54), but also through clear communication to the market of future requirements for lower carbon-outcomes that can actively stimulate new innovative initiatives. Further, government procurement of demonstration technologies can assist the commercialisation of technologies.

Ai Group recommends that the Victorian Government implement a coordinated procurement policy across government which incorporates:

- a focus on whole of life economic and carbon costing;
- development of contracting procedures including specifications and evaluation criteria which ensure a results-based approach;
- close communication with the market to ensure suppliers are aware of future needs; and
- a focus on best practice skills development for procurement officers and agencies.

Ai Group believes that the Victorian Government should give greater consideration to purchasing locally developed, innovative goods. Such a move would both strengthen local industry and help promote the quality of locally produced goods to overseas customers.

WATER

Opportunity exists for the Victorian Government to build on the achievements of previous initiatives to help large water users improve the water efficiency of their operations.

For example, Ai Group's waterMAP Assist program assisted large industrial water users (those users of more than 10 megalitres per year) in Victoria to implement initiatives contained in water management action plans and deliver water savings in industry. Many of the companies which participated in the program are now implementing the findings of the studies to generate water savings.

Evidence from water management action plans (waterMAPs) by industry confirms that many opportunities for large-scale reductions in potable water use are not cost effective at the site. Yet the savings may be very important to water infrastructure investment.

Ai Group supports the establishment of a specific fund to provide financial assistance to businesses to cover the difference between an agreed payback period (for example, three years) and the actual project cost. This would accelerate delivery of projects in industry that will cause significant reductions in potable water usage. This arrangement would support projects where the principal beneficiary of the project is not the host site in industry. Lower expenditure on water manufactured through the proposed desalination plant will mean a lower cost to the community.

WASTE

Consistent with COAG's National Waste Policy, Victoria's waste management strategies must be explicitly formulated to achieve net community benefit and be underpinned by detailed and specific cost benefit analysis. An increase in levies, particularly in the current economic environment, will adversely impact many businesses and may not effectively address the infrastructure and markets to ensure the ongoing sustainability of waste diversion and resource recovery.

The global recession has seen prices for recycled materials drop significantly, making some forms of recycling commercially marginal or unviable, and diminishing the achievability of waste diversion targets under current policy settings.

Any proposed increases in levies must be calibrated to ensure that benefits are not outweighed by the significant extra cost burden imposed on industry and households.

The Ai Group/EPA Sustainability Covenant provides a model for the effective delivery of targeted programs that address the needs of businesses for technical advice and support in order to achieve reductions in waste generation and to encourage development of supporting infrastructure and markets for diverted material.

METROPOLITAN OFFICES

SYDNEY

51 Walker Street,
North Sydney
NSW 2060
PO Box 289
North Sydney
NSW 2059

Tel: 02 9466 5566
Fax: 02 9466 5599

MELBOURNE

20 Queens Road
Melbourne VIC 3004
PO Box 7622
Melbourne VIC 8004

Tel: 03 9867 0111
Fax: 03 9867 0199

BRISBANE

202 Boundary Street
Spring Hill QLD 4004
PO Box 128
Spring Hill QLD 4004

Tel: 07 3244 1777
Fax: 07 3244 1799

CANBERRA

44 Sydney Avenue
Forrest ACT 2603
PO Box 4986
Kingston ACT 2604

Tel: 02 6233 0700
Fax: 02 6233 0799

ADELAIDE

136 Greenhill Road
Unley SA 5061

Tel: 08 8300 0133
Fax: 08 8300 0134

REGIONAL OFFICES

ALBURY/WODONGA

560 David Street
Albury NSW 2640
PO Box 1183
Albury NSW 2640

Tel: 02 6021 5722
Fax: 02 6021 5117

BALLARAT

1021 Sturt Street
Ballarat VIC 3350
PO Box 640
Ballarat VIC 3353

Tel: 03 5331 7688
Fax: 03 5332 3858

BENDIGO

87 Wills Street
Bendigo VIC 3550

Tel: 03 5443 4810
Fax: 03 5443 9785

NEWCASTLE

16A Bolton Street
Newcastle NSW 2300
PO Box 811
Newcastle NSW 2300

Tel: 02 4929 7899
Fax: 02 4929 3429

WOLLONGONG

Level 1,
166 Keira Street
Wollongong NSW 2500
PO Box 891
Wollongong East
NSW 2520

Tel: 02 4228 7266
Fax: 02 4228 1898

AFFILIATE PERTH

Chamber of
Commerce & Industry
Western Australia
180 Hay Street
East Perth WA 6004
PO Box 6209
East Perth WA 6892

Tel: 08 9365 7555
Fax: 08 9365 7550