



**PRODUCTIVITY THE KEY TO GROWTH**

NOVEMBER 2010



Ai Group Victoria pre-election statement



 AUSTRALIAN INDUSTRY GROUP

## Foreword

The Victorian economy has remained robust despite its lack of reliance on the resources sector.

But while it does not benefit as much as the other states from the mining boom, Victoria faces the headwinds the boom creates including from the strong dollar, upward pressure on interest rates and skill shortages.

While growth has come from population increases and productivity improvements, in terms of the latter, like the rest of Australia, labour productivity is lower than in preceding decades and should be lifted substantially.

Victoria needs to rebalance its drivers of economic growth by investing more in productivity improvements to increase cost competitiveness and sustain economic growth. Ai Group has developed a number of policy recommendations which we believe will help to lift productivity growth in Victoria.

These include:

- Reforming the state tax system;
- Cutting regulatory red tape;
- Building first class infrastructure;
- Increased funding on education and skills training;
- Increased support for research and development programs; and
- The development of environmental policies that would be conducive for sustainable and robust economic growth.

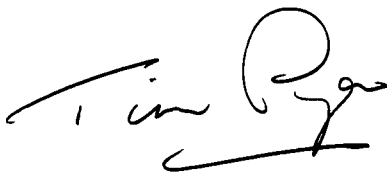
If our recommendations are not acted upon, there is a heightened risk of infrastructure bottlenecks, deterioration in housing affordability, significant shortages in skilled labour, higher wage bills for businesses and, eventually, a loss of cost competitiveness for the Victorian economy.

The strength of the financial position of the Victorian Government means it has the capacity to do more to assist businesses and industry achieve higher productivity growth.

Many of the ideas and suggestions in this Statement come from discussions with Ai Group members including through our State Branch Council and Ai Group's national policy-making body, the Ai Group National Executive.

We look forward to the proposals we have outlined being given positive consideration by the incoming Victorian Government.

As always, we will continue to work constructively with the Government of the day and I welcome an early opportunity to discuss our vision for industry in Victoria.



Timothy Piper  
Director – Victoria  
Australian Industry Group

## The Victorian economy

### *Strong economic performance over the last decade*

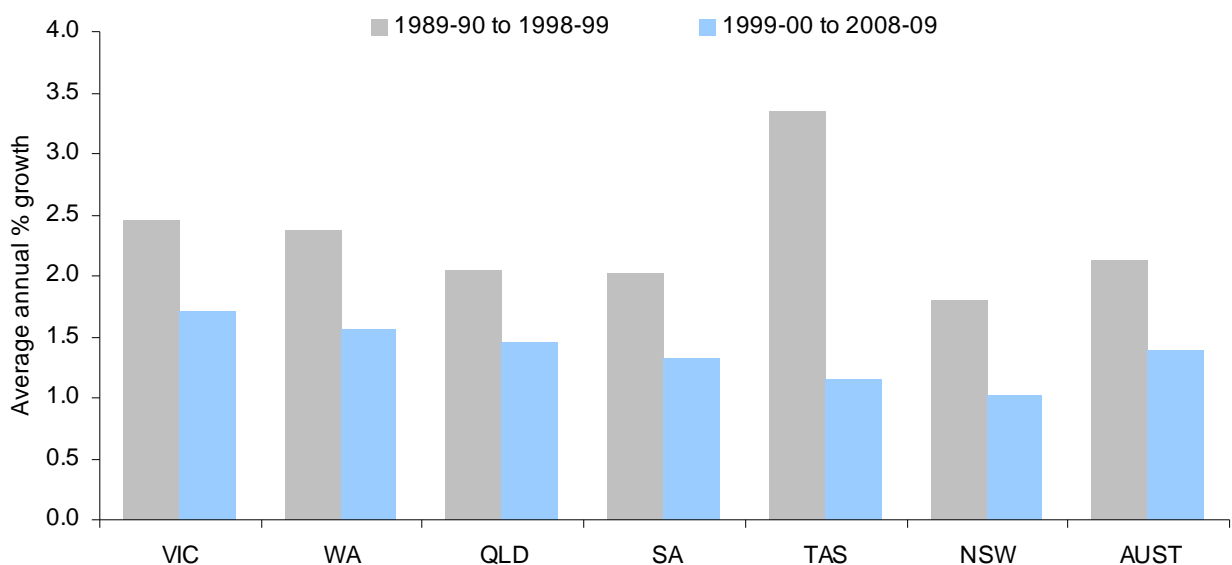
The Victorian economy has performed well relative to the other Australian states over the last decade, especially given its limited direct exposure to the resource boom. The Victorian economy expanded at an average annual rate of 3.1% from 1999-00 to 2008-09, matching the national average and the highest among non-resource states (Figure 1). Over the same period, Victoria created 507,700 new jobs, the second highest among all states. Furthermore, labour productivity (defined as real gross state product per hour worked) in Victoria grew 1.7% in the period 1999-00 to 2008-09, the highest among all states, and above the national average of 1.4% (Figure 2).

**Figure 1: Economic growth (1999-00 to 2008-09)**



Source: Australian Bureau of Statistics

**Figure 2: Labour productivity performances**



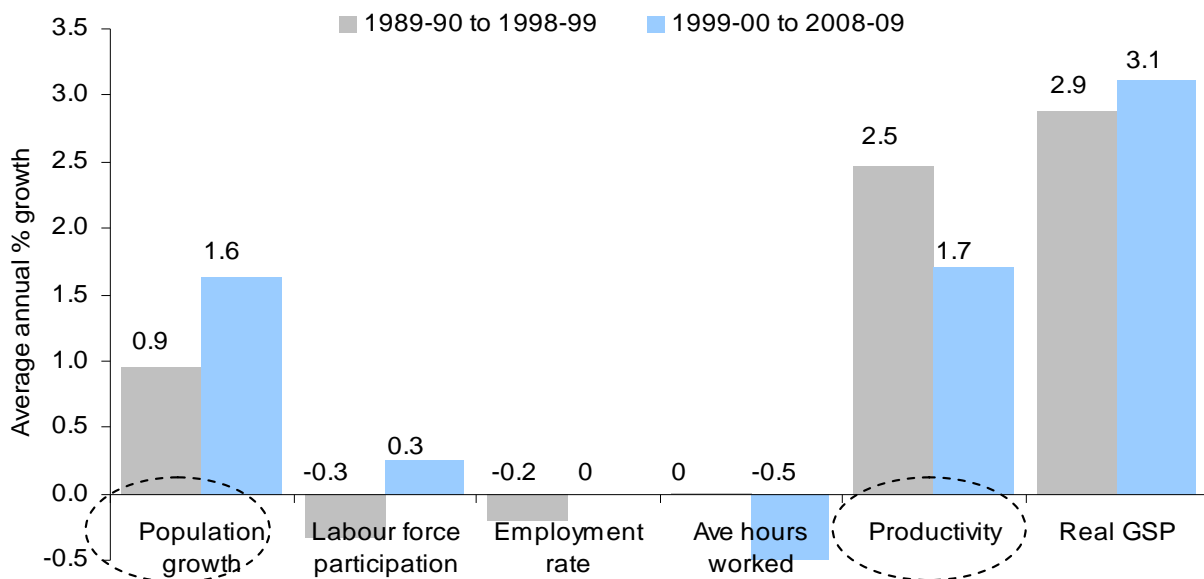
Source: Australian Bureau of Statistics

**Need for further productivity improvements to sustain economic growth**

It is useful to determine the respective contributions made by key drivers of the Victorian economy in order to assess the longer term economic outlook for Victoria.

The Victorian economy has been driven more by population growth, rather than labour productivity improvements, over the last two decades (Figure 3). During the decade starting 1989-90, productivity accounted for around three-quarters of the economic growth achieved, with the remaining one-quarter largely due to population growth. However, from 1999-00 to 2008-09, productivity accounted for around half of the economic growth attained. The other half is primarily due to population growth.

**Figure 3: Drivers of economic growth in Victoria**



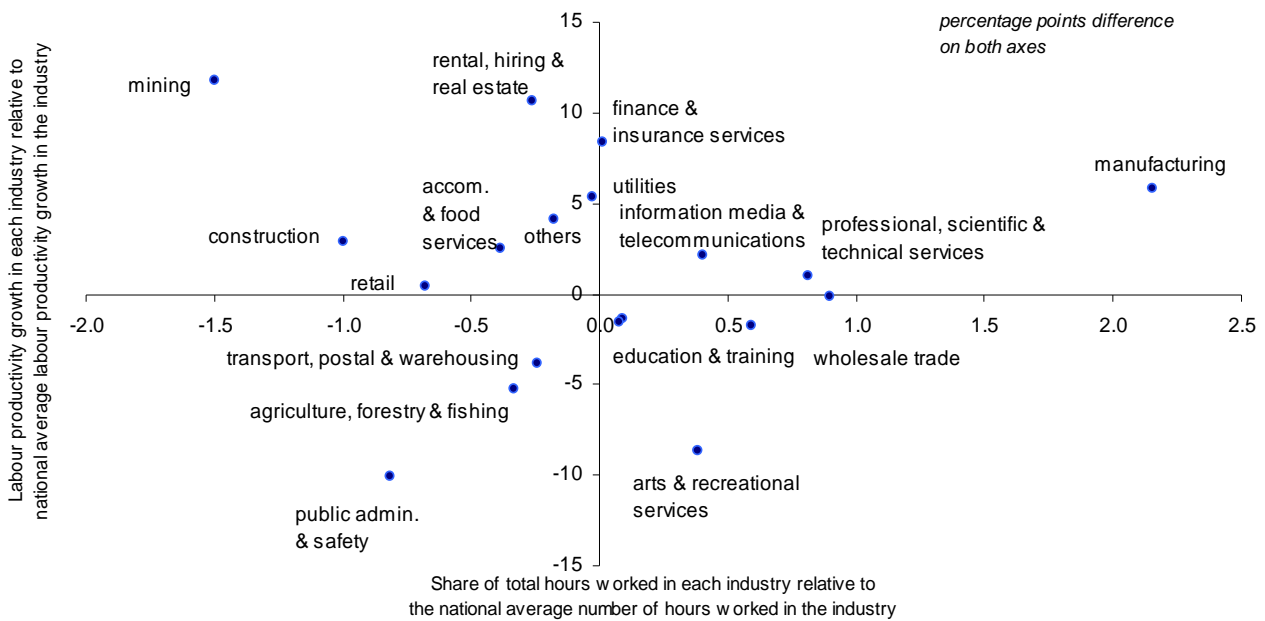
Source: Calculations based on data from the Australian Bureau of Statistics

The trend toward relying more on population growth and less on productivity improvements to propel the Victorian economy could result in severe infrastructure bottlenecks (evident from overcrowded trains and buses, frequent traffic congestions and delays at ports), further deterioration in housing affordability, significant shortage in skilled labour, higher wage bills for businesses and, eventually, a significant loss of cost competitiveness for the Victorian economy. Victoria needs to rebalance its drivers of economic growth by depending more on productivity improvements to increase cost competitiveness and sustain economic growth. The policies proposed in this pre-election Statement will, if implemented, help to lift productivity growth in Victoria.

**Victorian industries have a narrow lead on competitors**

At the industry level, Victoria needs to raise labour productivity growth across all industries. Figure 4 shows that in 2008-09, most industries in Victoria achieved above average annual labour productivity growth when compared to the national average labour productivity growth in the respective industries. Notable industries include rental, hiring & real estate; finance & insurance services; construction; mining; retail and accommodation & food services, as these industries achieved productivity growth higher than the national average for these industries, but required fewer hours worked than the national average in these industries.

**Figure 4: Productivity in Victorian industries**



Note: Labour productivity growth on the vertical axis refers to labour productivity growth in 2008-09 relative to 2007-08. Source: Calculations based on data from the Australian Bureau of Statistics

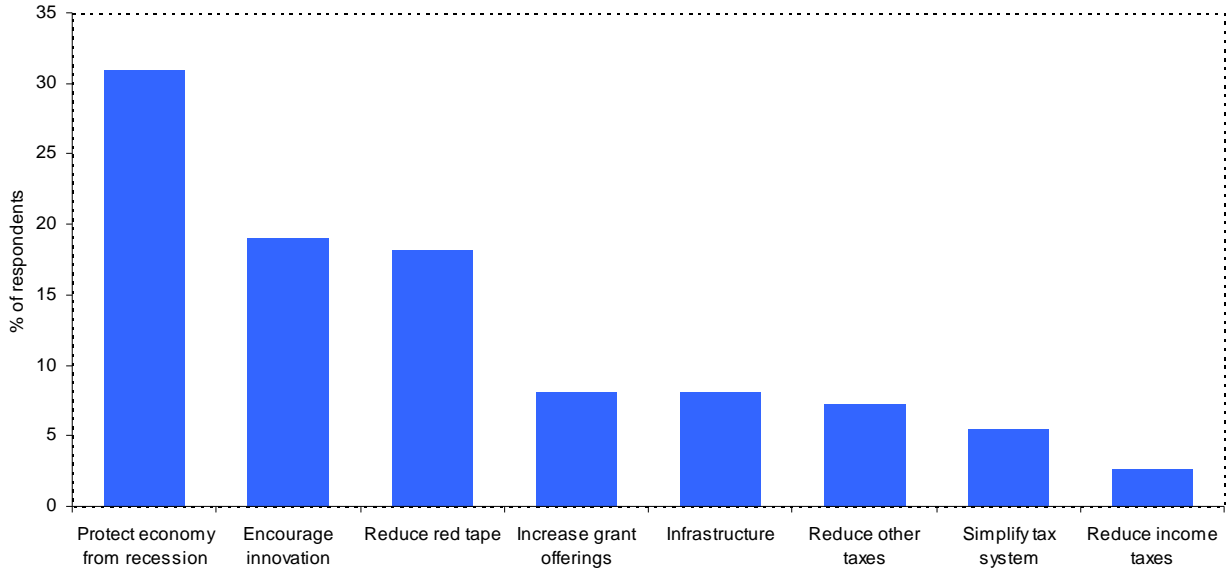
The strong financial position of the Victorian Government means that it has the financial capacity to do more to facilitate business efforts to achieve higher productivity growth. The Victorian General Government (GG) net operating balance is anticipated to rise to \$1.5 billion (0.4% of gross state product (GSP)) in 2013-14, the highest among all states. Meanwhile, Victoria's GG net debt to GSP ratio is forecast to increase from 2.8% in 2009-10 to a peak of 4.3% in 2012-13, before declining to 4.1% in 2013-14. By 2013-14, Victoria's GG net debt to GSP ratio would still be lower than the 5.3% for the Commonwealth Government. Also, when compared to other similarly sized developed economies, Victoria's debt position remains low.

### The role of the Government

The recent National Chief Executive Officer Survey on *Growth Strategies for Business* conducted by the Ai Group and Deloitte in October 2010 shows that Victorian businesses identified protecting the economy from a recession as the highest priority for the Government (Figure 5). Very importantly, businesses note that they expect to face intense structural pressures during the economic upturn as a result of a strong Australian dollar, and other pressures stemming from the mining boom, such as labour shortages, increasing interest rates and higher wages pressures.

Figure 5 also shows that a significant proportion of Victorian business would like the Victorian Government to facilitate innovation, reduce red tape, be more active in taxation reform and further invest in infrastructure.

**Figure 5: Victoria survey responses on key priorities for Government to assist business to achieve growth objectives**



***Respond to the needs of the Victorian business community and lift productivity growth***

Ai Group urges the Victorian Government to respond to the needs of the Victorian business community and assist businesses and industries achieve higher productivity growth through removing inefficient state taxes, cutting regulatory red tape, building first class infrastructure, increase funding on education, training and research and development programs and develop environmental policies that would be conducive for sustainable and robust economic growth.

## **Build first class infrastructure**

Key recommendations:

- Further invest in Victoria's economic future through infrastructure investments.
- Facilitate growth in the rail, tram and bus industries, as part of Victoria's overall plans to improve infrastructure.
- Develop an accreditation scheme for businesses supporting the rail, tram and bus industries.
- Collaborate with other states in the development of infrastructure.
- Encourage collaboration among businesses in defence, rail and vehicle manufacturing industries.

### ***Increase investments in infrastructure***

The Victorian economy has performed well in the last decade and also emerged from the global financial crisis relatively unscathed despite having limited exposure to the resources boom, in part due to the significant infrastructure investments by the Victorian Government prior to the onset of the financial crisis.

Ai Group urges the next Victorian Government to continue to invest significantly in Victoria's infrastructure as this will help to improve productivity and enhance the competitiveness of the Victorian economy. Ai Group commends the Victorian Government's commitment to the Victorian Transport Plan, and strongly recommends the next Government to further invest in Victoria's economic future through infrastructure investments.

### ***Develop the rail, tram and bus industries***

Ai Group urges the next Victorian Government to facilitate the development of the rail, tram and bus industries, as part of its overall plans to invest in Victoria's infrastructure. Ai Group supports the Victorian Government's plans to invest in more trains and trams for Victoria and the benefits this can have for local manufacturing. It will also help to improve Victoria's public transportation network, contribute to environmental protection and create more jobs.

Ai Group recommends that the Victorian Government increase its investments in transport infrastructure more broadly, such as improving the rail, tram and bus networks. Even if upfront investments cannot be made due to funding constraints, Ai Group strongly suggests that the next Victorian Government undertake a firm commitment to these investments, so that businesses that support the rail, tram and bus industries would find it easier to plan and invest in capital for the future. Such clarity in the Victorian Government's infrastructure investment plans will greatly help businesses plan ahead, and facilitate development of the rail, tram and bus industry supply chain networks.

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

### ***Demand management***

Victoria is the leader in developing the rail, tram and bus industries. It should 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 State Government commitment to the rail, tram and bus sector has increased considerably over the past few years and Ai Group believes that should continue. Current efforts revolve around developing and maintaining supply chains and ensuring local companies have the opportunity to be involved with the larger manufacturers. In this regard, 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.

This may involve both the industry and Government making tough decisions.

Ai Group notes that there are many small businesses supporting the rail industry. Lessons from the car industry would suggest consideration must be given to these smaller businesses reviewing their long-term future. In the medium-term, this could lead to a rationalisation of the industry and put the businesses on a firmer footing to overcome future economic challenges.

### ***Encourage 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.

### ***Defence***

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

## Help businesses cope with the strong Australian dollar

### Key recommendations:

- Reconsider the Freight Infrastructure Charge – and its timing - at the Port of Melbourne.
- Engage in further tax reform drawing on the Henry Tax Review recommendations.
- Extend the Competitive Business Fund (CBF) beyond June 2012.
- Expand the CBF to include funding for organisational innovation in businesses.
- Facilitate innovation in businesses by supporting technological developments.
- Deepen talent pools in industries by funding scholarships that incorporates work attachments at overseas multinational companies.

### ***Australian dollar to strengthen further***

The Australian dollar has strengthened significantly over recent months. This upward trend in the Australian dollar is likely to persist in the period ahead, reflecting rising interest rates in Australia and record low interest rates and weak economic growth in developed economies, such as the US, UK, Japan and the Euro area. The strong Australian dollar will lower the export earnings of businesses in the export sector, while businesses in the import competing sector will face increased competition from abroad.

### ***Reconsider the Freight Infrastructure Charge***

In light of the challenging conditions faced by Victorian exporting and import competing businesses, Ai Group urges the Victorian Government to develop an exporting culture by removing barriers to exporting businesses. Ai Group suggests that the Victorian Government reconsider the extent of the Freight Infrastructure Charge at the Port of Melbourne and the potential to push the introductory date well into the future. This levy effectively makes businesses less competitive in the global market. Furthermore, the levy disadvantages some large businesses because they tend to have heavier loads and can use only individual containers, rather than dual containers on the one vehicle.

The cost to some companies which utilise the Port for significant export container traffic is extraordinarily significant and Government must take account of the impact on exporting opportunities.

### ***Enhance opportunities for local businesses***

Ai Group commends the Victorian Government for its continued commitment to local procurement, as this provides much needed support to import competing businesses. Ai Group continues to believe that the next Victorian Government – especially Government departments - must be clear in the support for local procurement in Government purchases. This could be achieved by the next Government encouraging all Government departments to ensure Australian suppliers are given full and fair opportunities to succeed in winning procurement contracts.

Government departments should recognise the value of purchasing locally, taking into account many value-for-money factors, such as quality and servicing ability. This would effectively allow and encourage local purchases and develop a recognition that the taxpayer can benefit through a local purchasing policy. Of course, benefits which also arise include development of job opportunities and maintenance of skills.

### ***Tax incentives for exporters***

Ai Group proposes the next Victorian Government supports Victorian exporters through tax reductions and grants. Such policies would further demonstrate the Victorian Government's proactive stance in assisting businesses.

Suggestions are the Australian economy will need to deal with a strong currency for some considerable period. Industries with an export outlook and focus must be supported during this period to ensure that we do not lose those industries which have supported the economy for many decades and which will be vital when we inevitably have a change of economic circumstances. It is periods such as this that Government support is recognised as appropriate in backing industries, commerce, jobs, skills retention and market development.

### ***Lower payroll tax and WorkCover premiums***

Ai Group commends the Victorian Government for steadily lowering the payroll tax rate and recognises the Government's commitment to reducing average WorkCover premiums. However, it has been Ai Group's long-standing view that the payroll tax rate should be further lowered to 4.75%. In addition, Ai Group believes there is scope for the Victorian Workplace Authority (VWA) to make a further cut in average premiums, given that the VWA is in a strong operational position and workplace injury claims have been declining.

### ***Reform inefficient state taxes***

Ai Group believes the Victorian Government should take the lead in taxation reform as it is doing in other areas. Ai Group proposes that the Victorian Government consider closely the Review of Australia's Future Tax System (Henry Tax Review) recommendation to replace inefficient state taxes including payroll tax, stamp duties on conveyances, insurance contracts, transfer of ownership on motor vehicles and other financial transactions, with more efficient forms of taxation. Such measures would help lower the tax burden for Victorian businesses and would lift productivity. Ai Group recommends that Victoria extends its credibility as the leader of tax reform among the states by developing farsighted reform measures that draw on the Henry Review analysis and advocate them actively in the context of the national tax summit to be held in the first half of the 2011 calendar year.

### ***Extend the Competitive Business Fund***

Ai Group recommends that the Victorian Government extend the Competitive Business Fund (CBF) beyond June 2012 and also ensure there are considerably more funds available. Funding similar to the Industry Transition Fund which offered \$50 million over a two-year period would ensure more businesses gain an opportunity for support. As businesses are widely expected to continue to face challenging domestic and international economic conditions, additional funding from the Government would help promising businesses to improve competitiveness. The establishment of the CBF is a positive step in assisting businesses to expand their market opportunities, thus enabling new orders to be created.

Further, in the continued operation of the CBF, Ai Group encourages the Victorian Government to ensure that the categories of funding incorporate organisational innovation in the activities, in order to facilitate business model transformation in Victorian businesses. The Ai Group emphasises that the CBF is intended for supporting strong and promising businesses rather than to reinvigorate poorly managed businesses.

### ***Deepen talent pool in industries***

The State Government, through its Manufacturing Hall of Fame and its skills initiatives, has helped to improve the image of manufacturing and to encourage young people to consider the industry as a career option. Ai Group strongly believes that graduates working in the manufacturing industry will benefit from having international experience at multinational manufacturing companies. Ai Group urges the Victorian Government to fund graduate scholarships in the manufacturing industry to work and study overseas to gain experience and knowledge, which will help the Victorian manufacturing industry develop more strongly. The programs could involve attachments at multinational manufacturing companies. The scheme could also allow for group international visitations to overseas plants to ensure young local manufacturers are provided with an insight to overseas developments.

### ***Funding for growth***

Victoria is finding itself in the positive position where companies are willing to expand and regenerate their businesses. In some cases this means expenditure of hundreds of millions of dollars. However, there are often other states and countries which are also looking for footloose investment and are willing to make significant offers to attract that investment.

While Ai Group recognises that Victoria does not – and should not – want to be part of a bidding war either nationally or internationally, reality suggests there needs to be a certain level of encouragement for these businesses.

The Victorian Government needs to maintain a funding model which will ensure that companies with significant investments, which are maintaining skill levels and jobs, are given a level of assistance which equates to their value to the economy.

## Actively participate in developing climate policies

Key recommendations:

- Advance national consistency in climate policy.
- Ensure that the expanded powers of the Environment Protection Authority are used cautiously and responsibly.
- Provide substantial support to business to meet emissions reduction targets.
- Help position the Victorian industry for any national carbon constraint.
- Direct revenue generated from the progressive increases in the waste levy on business to the effective provision of practical assistance to industry in the implementation of sustainable waste avoidance, minimisation and reuse practices.

Climate change and the policies devised in response to it remain key issues for industry. The next Victorian Government will face a range of challenges in this area, particularly given the continuing uncertainty over national policy and carbon pricing. Ai Group urges all parties to adopt the following recommendations.

### ***National consistency in policies***

All other things being equal, businesses strongly prefer a nationally consistent approach to any policy issue over the fragmented and inconsistent responses that we have often seen from the states and territories. This is particularly true of many aspects of climate policy, which can involve significant compliance costs for business. These costs should not be multiplied through duplicative or contradictory policies. There are several specific opportunities to advance national consistency in climate policy:

- Once the Commonwealth Government legislates a substantial climate policy, whether an emissions trading scheme, carbon tax or otherwise, Victoria should review all of its own climate policies – not just the *Climate Change Act 2010*. While many are likely to remain relevant, those that are no longer necessary or offer poor value should be phased out rapidly.
- In considering the costs and benefits of any new Victorian proposals, account should be taken of the probability of a broad-based national approach to climate policy being introduced in the near future. Policies that would not be relevant in the context of a national approach and that have high start up costs (both in terms of administration and compliance) relative to initial environmental benefits, should not be introduced.
- Victoria's emissions reduction target – currently aimed at a 20% reduction on 2000 emissions levels by 2020 – should be consistent with any national target adopted in legislation. It should not disadvantage Victoria against other states.
- 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 multiple 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.
- Victoria and several other states currently operate separate energy efficiency trading schemes. The Commonwealth Government may move to introduce a unified national system. Victoria should cooperate with efforts that can reduce compliance costs and improve market liquidity.

### ***Environment Protection Authority powers***

The recent *Climate Change Act 2010* expanded the powers of Environment Protection Authority (EPA) Victoria to cover greenhouse gas emissions. These broadly framed powers must be used in a cautious and responsible fashion, consistent with EPA practice in other areas and the emphasis that recent Victorian Governments have placed on minimising unnecessary regulatory burdens. Any extension of greenhouse gas regulation beyond the electricity sector should be consistent with the recommendations of the Industry Advisory Group recently formed to consider the issue.

### ***Assistance for business efficiency and emissions reduction***

The next Victorian Government should provide substantial support to business in order to meet emissions reduction targets and help position the Victorian industry for any national carbon constraint. This can be delivered through a range of channels to meet the varying needs of businesses of different sizes or in different industries. Adequate and accessible funding for the proposed Clean Business Fund is one vital component, enabling assistance for projects to improve energy efficiency or reduce emissions. Equally important are Climate Agreements.

The results of Ai Group's research indicate the need for comprehensive business support services to assist industry:

- Prepare for the projected economic, social and environmental impacts of climate change
- Improve awareness of the impacts of climate change policies on business
- Access practical information on processes for identification, assessment and implementation of innovative solutions and investment in carbon efficiency initiatives
- Implement practical initiatives across supply chains
- Develop the necessary in-house expertise to achieve sustainable environment solutions

An important role exists for Government in partnership with industry associations to promote strategic resilience in industry and position it to capture emerging opportunities in response to climate change.

Ai Group seeks to work closely with the Victorian Government in the development and delivery of targeted initiatives to:

- Raise awareness in industry of climate change adaptation risks and opportunities
- Provide practical assistance in the development by businesses of strategies to measure their own progress towards adapting to climate change
- Promote integration of carbon efficiency into industry's core business practices
- Promote and assist uptake of energy efficiency and adaptation initiatives
- Identify and implement initiatives to reduce carbon intensity of processes, supply chains, products
- Identify areas of emerging business opportunity and trialing of innovative climate change adaptation technologies

Ai Group further proposes an expansion in the range of practical industry networking events to build on the success achieved by Ai Group's Environmental Solutions Forums. These forums, which have received strong support from Government, bring together companies that face environmental challenges with those that provide environmental solutions.

### ***Waste Reduction Fund***

Revenue generated from the progressive increases in the waste levy on business, which commenced in July 2010, must be directed towards effective provision of practical assistance to industry in the implementation of sustainable waste avoidance, minimisation and reuse practices.

The results from the Ai Group and Sustainability Victoria 2007 survey *Environmental Sustainability and Industry: Roadmap to a Sustainable Future* found that many companies do not have the internal capability or resources to identify opportunities to reduce or avoid waste. Specifically, 54% of firms had no staff with environment responsibilities. The lack of environment skills within a company severely limits its ability to identify opportunities to identify and implement opportunities for improved environmental management.

Key results from the survey include:

- Just under 15% of companies have initiated changes that have contributed to savings in solid waste generated.
- The chemicals, petroleum and coal products sector along with wood, wood products and furniture incur the largest cost in solid waste management (as a percentage of sales) in the production chain.
- One in every two companies recycle their solid waste.

The consultation round tables on the Waste Reduction Fund identified the importance of communication and program delivery through industry associations. Ai Group advocates that the Fund be directed at achieving a step change in current industry waste practices through:

- Provision of practical assistance to businesses to increase the identification and uptake of waste avoidance and implementation of sustainable waste management and resource recovery practices
- Development of strategic action plans for the implementation of projects in priority sectors.
- Assistance for transition of supply chains towards waste avoidance, minimisation and reuse in key industry sub-sectors.

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.

## Develop information and communication technology

Key recommendations:

- Create new programs to train and assist businesses on using high-speed broadband internet access to support operations.
- Train businesses and users of the internet to manage cyber-security risks.
- Increase investments in the development of suitable skills among the workforce and foster innovation that expands the reach and scope of broadband internet applications.
- Introduce measures to improve the flow of private capital to innovative businesses and increase the collaborative opportunities between businesses.

The Commonwealth Government is proceeding to invest in the National Broadband Network (NBN), and Victoria will benefit from the plan by hosting the National Operations Centre and Testing Facilities.

### ***Help businesses use the high-speed broadband internet access to improve operations***

Ai Group, on behalf of industry, encourages refinements to the current plan and, critically, for state-based policy to look beyond construction of the network, so that it includes consideration of how high-speed broadband can best support business operation, encourage innovation and promote jobs creation.

In particular, Ai Group encourages the creation of new programs that assists businesses understand the transformative nature of information and communication technology (ICT) and how it could help them extract the full value of high-speed broadband in the manufacturing, health and education industries, to name a few.

Ai Group recognises that ICT is an enabler to business transformation. In areas such as ICT, businesses often are unaware of the full value of ICT.

To assist businesses to use these new technologies, Government will need to undertake a thorough and practical education process.

Effective use of ICT requires a comprehensive approach to organisational change and development focused on clearly defined, appropriate and achievable outcomes, together with an executive culture of active planning and control of ICT-enabled change within agencies and across the entire Government. Ai Group proposes that initiatives to educate businesses, particularly in regional areas, of ICT governance and management principles will play an important role in Victoria continuing to lead Australia in this sector.

### ***Train businesses to manage cyber-security risks***

Widespread take-up of the full range of broadband applications will also require greater business and consumer knowledge of cyber-security risks and ways to manage these risks. The future blueprint for a broadband enabled society should include initiatives to help industry and the population at large understand cyber-security risks and how they can protect themselves online.

***Train workforce to acquire skills necessary to boost innovation using broadband applications***

Ai Group recommends complementary investment in the development of suitable skills among the workforce and in fostering innovation that expands the reach and scope of broadband applications.

***Increase state funding for innovation and collaboration among businesses***

Investment and innovation are increasingly important state-based issues as entrepreneurial businesses face a funding shortfall. While state Government programs have benefited small-to-medium-enterprises, Ai Group encourages consideration of more significant measures to improve the flow of private capital to innovative businesses and increase collaborative opportunities between businesses.

## **Build world class skills and capabilities**

### Key recommendations:

- Closely monitor the impact of the Victorian skills reform program.
- Improve the quality of training delivery.
- Support the establishment of a national vocational education and training regulator to ensure training quality improvements.
- Develop and publish information on Registered Training Organisation performance to allow the consumers of training to make informed decisions.
- Commit significant resources to improving the literacy and numeracy levels of Victoria's workforce.
- Encourage participation by senior secondary school students in vocational programs.

### ***Monitor the impact of the Victorian skills reform***

The current Victorian Government has been progressively implementing its skills reform program since July 2009. Ultimately these reforms have the potential to change the nature and shape of the Victorian training system and to address many of the challenges confronted by both industry and individuals.

Previously Ai Group has called for rigorous monitoring and evaluation processes to accompany the introduction of these sweeping changes. We note the recent review of the implementation and the Government's response and welcome the new financial commitments which support exemptions to various categories of learners allowing them access to the Victorian Training Guarantee. The anomalies addressed through these changes have been issues of concern to industry since the reforms were introduced. Our call now is to make these changes a permanent part of the Victorian skilling arrangements, rather than a series of exceptions funded for limited periods of one or two years.

The review only looked at implementation, which was appropriate given the infancy of the reforms, but we remain concerned that the new flexibilities will have an adverse effect on enrolments in some areas of fundamental importance to industry which traditionally have difficulty attracting students. Early figures of the decline in engineering enrolments, for example, demonstrate that this concern is not without foundation. For this reason we continue to call for the Victorian Government to closely monitor the impact of the reforms and to develop strategies to overcome skills shortfalls in those areas critical to the economy.

### ***Improve the quality of training delivery***

Concern over the quality of training delivery 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 the establishment of a national vocational education and training regulator will make a significant contribution to training quality improvements. Ai Group acknowledges the current Victorian Government's position of introducing mirror legislation rather than joining the national regulator from the outset and encourages the new government to closely monitor and evaluate this initiative over the coming years.

The continued opening up of the training market will help to drive quality improvements where the consumers of training have the information they need to make decisions based on quality. The impartial, comparative information on Registered Training Organisations and their performance across a range of quality indicators that the market needs to make informed decisions is not currently available and its development and publication should be a priority for the incoming Government.

### ***Address workforce literacy and numeracy shortfalls***

According to the Australian Bureau of Statistics, nearly half of adult Victorians are below “the minimum required for individuals to meet the complex demands of everyday work in the emerging knowledge based economy.” Specifically, 48.8% are below the level required for prose literacy and 49.2% for document literacy. The statistics are even worse for numeracy where 54.4% are below the required level.

Against this backdrop, Victorian companies are again facing skills shortages and responding to these skills shortfalls by upskilling their existing workforce. Low literacy and numeracy levels make this upskilling task particularly difficult.

It is essential that the new Victorian Government commits significant resources to improving the literacy and numeracy levels of the state’s workforce. A recent Ai Group project working directly with enterprises and employees, on site, is yielding very encouraging results. The project has resulted in tangible improvements in productivity and profitability for a relatively modest investment indicating that long term benefits flow for the economy, as well as for the individual, from this investment in the foundation skills of the workforce.

### ***Improve vocational education and training in schools take up***

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

Recent changes by the Commonwealth Government and the introduction of a range of new brokers and coordinators, combined with a range of State Government services in this area have left enterprises uncertain as to what is available. Efforts need to be made by Government to clarify for industry the purpose of the various entities and interventions in a straightforward and accessible manner.

### ***Planning Policy***

The State Government’s planning policy must provide certainty to industry. Companies must be encouraged to refurbish, redevelop and to develop greenfield sites, confident that they will be in an area and an environment that takes a positive approach to their proximity.

The encroaching of residential land onto industrial areas must be discouraged to ensure that long-term investment can be undertaken and fully utilised over a considerable period.

Furthermore, a new Government must ensure that tracts of land are set aside for industry in general and manufacturing in particular. The planning process for this to occur is essential, especially taking account of the transportation options available now in and around metropolitan Melbourne. The use of road and rail infrastructure could be encouraged through appropriate planning.

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