

24 April 2015

The Hon Jaala Pulford MP Minister for Agriculture

Minister for Regional Development 8 Nicholson Street

East Melbourne VIC 3002

Dear Minister

**Re: Review of DEDJTR's Regional Service Delivery Model and Strategic Directions for Regional Policy**

The Victorian Employers' Chamber of Commerce and Industry (VECCI) welcomes the opportunity to provide a submission to the Review of the Department of Economic Development, Jobs, Transport and Resources' (DEDJTR) Regional Service Delivery Model and Strategic Directions for Regional Policy.

As the most influential employer organisation in Victoria, VECCI has a long standing and significant interest in regional development. We represent more than 6,000 small, medium and large members, customers and clients across regional Victoria.

In making this submission, we have focused our response on what we consider to be important high level considerations relevant to the review's Terms of Reference; namely:

* Best practice policy directions to foster regional growth and job creation, and
* The approach to regional service delivery best able to deliver regional growth and job creation.

# Victoria's regions are important

The economic performance of our regional and rural communities over the past decade has been a standout feature of the State's overall economic growth. Regional output has grown strongly, in no small part buoyed by strong population growth, significant new infrastructure and robust trade. Regional Victoria now accounts for around a quarter of the State's population, jobs and economic activity1.

VECCl's regular engagement with regional Victoria, including through our biennial Regional Business Convention process, has determined that even though Victoria's regions are in

1 Reinventing the Regions. CEDA, Regional Development Victoria, 2013.

many ways uniquely different, their shared characteristics give them great strength, resilience and potential:

* They all possess well developed workforces and close links to world-class education and training systems.
* Community connections are strong and growing.
* Small businesses are a vibrant and vital part of local economies and communities.
* Our regions are rich in natural and capital resources and have access to important markets at home and abroad.
* The take up and application of new technologies is strong and growing.

VECCI recognises that the policies of successive governments have played an important part in securing regional prosperity with well defined, solidly funded strategies designed to better integrate our regions and foster investment in local competitive advantages.

However, equally important have been the efforts of communities and their businesses to skillfully blend energy, leadership, experience and resources to forge a more modern, dynamic and confident regional Victoria.

In our view, the challenge is to build on these attributes over the remainder of this decade and into the next.

Success will not happen by chance. There are new challenges at home and abroad and the key drivers of regional prosperity are not what they used to be:

* Energy prices are no longer low, eroding a previous competitive advantage for business, especially those in trade exposed, energy intensive industries.
* Skilled labour and managerial talent have become increasingly footloose in the modern global marketplace.
* Until recently, the high Australian dollar has been working against many of our regional exporters.
* Consumer sentiment is soft and likely to remain so over the near term, impacting on key regional industries like manufacturing,retail trade, tourism and business services.
* Restructuring in some of our major industry sectors has accelerated, affecting a number of regional industries and their wider communities.

Having regard for these challenges, our capacity to foster continuing regional growth and job creation will depend on a mix of strategic policies and programs, as well as effective service delivery mechanisms.

# Best practice policy directions to foster regional growth and job creation

VECCI welcomes the Victorian Government's commitment to invest in and grow regional Victoria to create new prosperity, more opportunities and a better quality of life.

In our view, best practice policy directions to foster further regional growth and prosperity should be guided by the following principles and supporting actions:

### Good regional policy settings should be sector-wide and 'whole of state'in theirfocus and coverage.

While there is a new sense of urgency to respond to the many emerging pressures on Victoria's manufacturing sector, regional policy needs to be equally supportive of our service industries (including ICT and communications; property and business services; personal services; tourism and hospitality; finance and insurance; education and health; retail trade; and transport), recognising and supporting the valuable contribution they already make and will continue to make to regional jobs, trade and investment into the future.

### Good regional policy should recognise that the challenges -and opportunities - existing in our regions vary across the state.

While a 'holistic' regional policy framework is important, there is no simple path to high and sustained growth rates across our regions. Therefore, within the consistent policy settings outlined above, flexible and tailored policy and program responses will also have a role to play. The capacity to include a 'place-based' approach to regional development policy is important as it will allow the unique features of each region to be recognised and capitalised on.

There are many good examples of this approach already. Geelong has leveraged off its strong manufacturing and research capabilities to attract businesses in the internationally competitive carbon fibre industry. This includes the Australian Future Fibres Research and Innovation Centre which will employ 385 researchers, adding an extra $25 million per annum to the local economy.

Similarly, in the Bendigo region the healthcare, education and construction industry is leveraging off the investment in the new Bendigo Hospital to position Bendigo as a global centre for health innovation.

### Good regional policy is not a substitute for good economic and financial management.

Unless the economic fundamentals are right - spending, taxation, regulation, infrastructure, skills and training -the best - laid regional strategies and plans will not be realised.

The government's role is to do those things within its control that support the private sector in growing new jobs and investment. This includes cutting taxes and red tape, promoting new productive investment, reducing impediments to export and continuing to work with industry to improve the skills set of our workforce.

### Good regional policy should set a vision for our regional economic future and outline the steps that need to be taken to get there.

Regional policy setting needs to take a long term perspective on where our regional economies have been and where they are heading. It must deliver policy certainty and confidence to regional industry and communities, and ensure the engagement of the community at all levels.

### Good regional policy programs should provide a net economic benefit and must have measurable performance indicators attached to them.

Programs to support regional businesses and their communities should be regularly reviewed to ensure they are meeting their objective and, if necessary, modified in response to

technological, demographic, societal ,and climatic changes. This review provides a welcome and timely opportunity to reassess the efficacy of existing regional support programs and service delivery models.

### Good regional policy should aim to maximise connectivity between other important policy areas of government.

Government decision-making has a significant footprint on regional Victoria. It is therefore important that regional policy is framed within - and connected to - policies existing in the areas of small business, tourism, trade, energy, the environment and resources, major projects, education and training, employment and transport - as well as the regional development policies and strategies of other (state and local) governments.

### Good regional policy must be socially inclusive.

One of the great difficulties governments face in implementing reform is their ability to effectively promote the benefits of reform to the wider community. Public resistance to change can be a major dampener of reform and progress.

# Fostering regional growth and job creation: VECCI policy priorities and recommendations

Building on these principles, VECCI,through our biennial Regional Business Convention (RBC) process and *Taking Care of Business* 2014 state election campaign, has developed an extensive suite of policy recommendations that we believe, if adopted, would make a valuable contribution to securing further regional prosperity. Some of these are outlined as follows:

### 1. Invest in Strategic Growth

* Fast track outstanding or partially completed regional infrastructure projects including: o Ballarat Railway Station Project.
  + Redevelopment of Bendigo Airport.
  + Reconstruction of the Yarra Street Pier in Geelong. o South Gippsland Highway upgrade.
  + Goulburn Valley Highway bypass of Shepparton. o Stage 2 of the Mildura Riverfront Precinct.
* Work with local government to identify a preferred site for Melbourne's third major airport that includes a process for private sector investment in its development.
* Encourage further unsolicited bids for infrastructure projects from the private sector to enhance the pipeline of regional infrastructure projects. As part of this, develop a Regional Victoria Investment Development Profile that highlights the top 10 regional and rural 'investment ready' infrastructure projects, in order to highlight private investment opportunities
* Identify state owned assets in regional Victoria, such as under utilised land, which could be sold, leased or privatised to raise capital to reinvest in new projects.
* Investigate the scope to further decentralise key state government departments or agencies to regional locations in order to improve regional stakeholder access to these agencies and support regional employment opportunities. Implement a 5-10 year reform timetable.
* Identify and fast track priority 'creative' infrastructure investment opportunities (inc. cultural, recreational and arts-related infrastructure) in order to attract and retain creative and entrepreneurial residents, and support innovation, small business development and associated employment opportunities.
* Review the adequacy of existing expenditure on aged care services in regional Victoria to determine whether the needs of the future projected demographic profile of regional Victoria will be met.

### Support Local and Global Business Connections and Leadership

* Commit $75 million in funding to secure Victoria's International Engagement Strategy for a further four years.
* Grow the Victorian Jiangsu Business Program (VJBP) to help regional businesses develop new links, capabilities and mutually productive trade and investment opportunities with their counterparts in China.
* Accelerate the Food to Asia Action Plan, ensuring it capitalises on Free Trade Agreements and stimulates employment in agribusiness and agrifood research, processing and distribution.
* Enhance international connections and networks with global regions that have comparable features, strengths and challenges, in order to promote collaboration and facilitate knowledge sharing, trade and innovation uptake.
* Expand successful models of regional leadership and development in communities that would benefit from a more structured leadership framework. This will help enhance local vision and provide further support to locally driven strategic development, along with inter-regional collaboration.

### Develop Skills, Training and Education for Future Success

* Strengthen youth employment pathways by rebalancing Victorian training guarantee funding to boost apprenticeships/traineeships in hospitality, administration, retail and tourism.
* Support regional students undertaking a school based apprenticeship by increasing the school based apprenticeship target, focusing on skill shortages.
* Increase the rigour of the regulatory framework for the VET system to engender confidence in the VET system among all stakeholders.
* Investigate and implement new strategies and supporting programs that enhance mentoring and coaching skills among regional employers (particularly small business) with a focus on young people and workers transitioning from 'old' industries to 'new' industries.
* Enhance the provision of incentives for employers (or a group of employers) to take up traineeships by seasonal and casual workers who are currently not eligible for such programs. This will formalise work experience and provide a formal qualification for this significant sector of the workforce.

### Support Small Business - the Cornerstone of Regional Victoria

* Assist regional SMEs by raising the payroll tax threshold from $550,000 to $850,000.
* Cut WorkCover premiums.
* Aim for up to 20 per cent local content in all regional major projects and government purchasing and strengthen opportunities for regional SMEs and apprenticeships.
* Set a specific *regional* 'red and green tape' reduction target of at least $100 million per annum (net reduction in regulatory burden) by 2015/16.
* Rationalise or abolish unnecessary government agencies, boards and committees. Review which government services provided at the regional level could be outsourced to the private sector.
* Implement a Regional Innovation Awareness Campaign to encourage greater participation by regional SMEs in competitive clusters.
* Undertake a marketing campaign to improve the perceptions of small business in regional Victoria, celebrating success, promoting support mechanisms, and dispelling myths.

### Accelerate Regional Land-Use and New Business Investment Opportunities

* Develop dedicated strategies and action plans to leverage regional growth and new investment in:
* Natural gas exploration and supply expansion for new power, advanced manufacturing and industrial applications.
* Water and land reuse for agribusiness. The Bunyip Food Belt is a good example of how industry, local government and water authorities can work together to improve the utilisation of high quality soils and water supplies.
* Ensure the Government's Renewable Energy Action Plan includes a strategy to leverage regional capabilities and resources to attract new investment and grow expertise in research, production, construction and maintenance of wind farm power generation, solar energy, biofuels and bioenergy.
* Further support industry diversification to ensure vulnerable regions and their resources, whether labour or capital, can expand and leverage off emerging industries.

### Develop Regional Victoria through Tourism and Events

* Invest in high quality, high yield tourism product and service development that meets the needs and expectations of key international visitor growth markets, including the priority areas of food and wine, spa and wellness, accommodation, and nature-based tourism.
* Maintain real funding levels to attract business events and conferences aligned to Victoria's priority sectors and ensure Victoria's regions benefit from events attraction and promotion.
* Boost funding to maintain existing regional state-owned tourism infrastructure assets.
* Provide additional funding for enhanced cultural awareness, language and visitor service programs to meet the needs of key visitor markets, and raise visitor service standards across regional Victoria.

### Enhance Connections with Regional Youth

* Strengthen 'employability' skills by expanding and enhancing existing youth focused job exchange and work experience/placement programs to incorporate a wide range of sectors and businesses across regional Victoria.
* Identify and promote regional career paths through a strategic and cooperative marketing campaign designed to build awareness of local industry strengths and employment options for both semi-skilled and skilled employees across regional Victoria.
* Give greater priority to the development of youth entrepreneurship and leadership within all regional plans and related initiatives, recognising it as a core component of local economic development.

### Assist Regional and Rural Councils to Support Business and Communities

* Reassess regional and rural council funding arrangements and develop options to improve infrastructure and service delivery standards while enhancing the longer term financial sustainability of regional and rural councils.

### Enhance Business Decision Making

* Benchmark the comparative cost of doing business in different parts of regional Victoria in order to facilitate efficient investment and locational decision-making.
* Assess inter-regional comparative economic advantages and synergies to determine the allied infrastructure improvements that are needed to support increased region-to­ region and region-Melbourne connectivity
* Foster enhanced collaboration between government, research institutions and business, providing business-friendly advice and information that supports strategic and operational decision making. This could include for example, land-use planning analysis.

We consider the adoption of the above recommendations would play an important role in raising business competitiveness and spurring jobs growth across all of Victoria's regions. Taken together, their focus is ultimately on:

* Facilitating regional infrastructure.
* Investing in regional human capital.
* Nurturing regional trade and innovation.
* Advancing regional leadership, connectivity and collaboration.

# The approach to regional service delivery best able to deliver regional growth and job creation

In preparing our submission, VECCI consulted with a range of regional stakeholders to obtain feedback on their experience dealing with regional service delivery bodies. Our consultation included discussions with regional business operators, local government, local business associations and networks, Small Business Victoria, individual Victorian Government Business Offices (VGBOs) and offices of Regional Development Victoria (RDV) and Regional Development Australia (RDA).

The feedback we received suggests the current service delivery model is performing reasonably well, but there is also some opportunity to improve the focus and outputs of such bodies, in doing so, enhancing their value and impact among regional stakeholders.

## Victoria's regional service delivery model - what is working well?

Our consultations with regional stakeholders points to a broad consensus that regional service delivery bodies play an important role in facilitating regional growth and connectivity.

For business and local government customers, VGBOs and RDV offices in regional Victoria appear to be useful providers of information, advice and referral services in relation to:

* Regional and state-wide business grant and assistance programs.
* Planning and advisory support on local infrastructure proposals.
* Advice on local employment and workforce development opportunities associated with specific government initiatives (for example, the Back to Work Act and the Victorian Skills Gateway)
* Assistance to first time exporters (for example, directing businesses to in-market information relating to prospective export markets).

## Victoria's regional service delivery model - where are there gaps?

Feedback from regional stakeholders suggests there is scope to continue to improve the current regional service delivery model to address current gaps that include:

* **At times poor co-ordination between service delivery bodies in responding to regional opportunities or threats**

Examples were raised where a lack of clarity and purpose can exist around the roles and responsibilities of different service delivery bodies in response to the closure of a significant local employer, or the advancement by the private sector of a major infrastructure opportunity. In instances where regional service delivery bodies, including VGBOs and RDVs, respond to such matters without close consultation and coordination with other agencies or arms of government, the overall result can be sub-optimal, both operationally and strategically. Feedback we received included that the investment facilitation branch of Invest Victoria keeps a very low profile in many of Victoria's regions.

* **Resource limitations leading to relatively inflexible industry support**

VGBO and RDV office resources are limited. This means they can only support a limited number of businesses in what is often a wide geographic area. Much of their work is focused on providing localized direction and support on programs and initiatives that have been designed within DEDJTR centrally, leaving little capacity to respond to emerging issues that may be unique to a particular region and/or outside the ambit of existing program eligibility criteria. This can lead to missed opportunities for growth and job creation.

* **The absence of regular, detailed performance monitoring, evaluation and reporting**

While anecdotal evidence suggests the services provided by VGBOs and RDV offices are important, a lack of hard data makes it difficult to evaluate their overall effectiveness. In preparing our submission, we found it difficult to obtain succinct information that outlines:

The overall framework for DEDJTR's regional service delivery model.

* The respective roles and responsibilities for the respective regional service delivery bodies.
* How much is spent on them.
* What strategy exists to link them.
* What they are intended to achieve.
* What they have achieved.
* How costly they are to operate.

In this respect, there would appear to be scope to strengthen processes to periodically assess the structural design of the regional service delivery model and the evaluation and reporting of individual bodies to ensure their performance remains relevant, timely and effective.

* **Less than optimal use of local business intelligence**

Many VGBOs and RDV offices have been embedded within local communities for a lengthy period of time and possess a strong understanding of the issues facing existing and new businesses. However, this market intelligence and associated insights generally resides at a regional level and is not regularly consolidated, assessed or accessed by local, state or federal governments in the evaluation and development of regional policies and programs.

# Recommendations to improve Victoria's regional service delivery model

Based on member and stakeholder feedback, VECCI considers the following actions would assist in improving the effectiveness and efficiency of the existing regional service delivery model:

* **Increase regional VGBO and RDV office autonomy to respond to regional development challenges and opportunities**

Subject to a more detailed assessment of the overall performance of DEDJTR's regional service delivery model, and clarity around the overarching strategy that links regional service delivery to regional policy objectives, there would appear to be a prima facie case to strengthen VGBO and RDV office resources and provide them with a greater level of autonomy to lead and coordinate local regional development activities. However, such autonomy must not be at the expense of efforts to continue to improve levels of cooperation and interaction between VGBOs, RDV, other levels of government and the private sector.

* **Provide VGBO and RDV offices with discretionary funding to support emerging job­ creating activities**

Part of the improvement in VGBO and RDV office resourcing needs to include the provision of discretionary funding to enable each region to respond to emerging challenges or opportunities. The fast changing business environment calls for a level of flexibility in model focus and delivery that currently appears to be relatively limited.

More clearly define the role of VGBO and RDV offices and improve monitoring, evaluation and reporting on outcomes

As we have indicated, there would appear to be scope to strengthen processes to periodically assess the structural design of the regional service delivery model and the evaluation and reporting of individual bodies to ensure their performance remains relevant, timely and effective.

* **Make better use of local business intelligence**

Sharing insights garnered by regional service delivery bodies across all levels of government will help policy-makers identify matters that are material for business (and those that are not), determine what government intervention is most appropriate for individual regions, and ensure resources are used most effectively.

At the same time, closer integration between regional service delivery bodies and those parts of government (local, state and federal) that design, implement and evaluate regional development policies is recommended.

# Concluding Comments

In VECCl's view, the platform on which to build further regional business and economic growth is strong.

Given that the key agents for growth are regional businesses and their communities working in partnership with different levels of government, an effective regional service delivery model is vital to connecting and informing agents about growth opportunities. The current model appears to be working well, but further improvements are to be encouraged.

Program and service delivery needs to be supported by an overarching regional policy framework that capitalises on existing regional competitive advantages, and develops new ones.

VECCI stands ready to work with the Victorian Government to progress the outcomes of this review, doing what we can to support continuing regional growth and job creation.

We would welcome the opportunity to discuss these issues with you in further detail if required.

Yours sincerely



Chief Executive