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INQUIRY INTO A STATE-BASED REFORM AGENDA

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VICTORIAN EMPLOYERS' CHAMBER OF COMMERCE AND INDUSTRY



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©Victorian Employers' Chamber of Commerce and Industry
486 Albert Street
EAST MELBOURNE VIC 3002

Phone: (03) 8662 5333

www.vecci.org.au

Why a State-Based Reform Agenda is Important

Victoria Has a Strong Base to Work From

As a state, Victoria has made great progress over recent decades.

We have benefited from strong population and economic growth. Infrastructure spending has been strong. Economic management has been responsible.

Victoria has become a modern state with an increasingly diverse, export-oriented industry base, and a rich social culture.

Reforms to our education and training system are building new capacity and capability.

Our tourism and events industries successfully showcase the many attributes that make Victoria a great place to visit. 'Liveability' is high and is recognised worldwide.

Small business remains as important as ever as the engine of state economic growth and innovation.

Our manufacturing sector continues to transform alongside a fast-growing and diverse service sector. New industry opportunities are steadily emerging.

Our regions have grown strongly, creating new employment and investment opportunities that will benefit all Victorians for years to come.

But New Challenges Are Emerging

New challenges are emerging that will have a profound influence on our capacity to forge further, sustainable growth and develop new competitive advantages.

In contemplating how we respond as a state to these challenges it is important that we recognise that many of the reasons for our past success are fast changing.

Energy prices are no longer low. They are rising and will likely continue to do so over the coming decade.

Our water supplies and other natural assets cannot be taken for granted. Climate change is putting new pressure on these systems.

Finance and capital have become difficult to source.

Skilled labour and managerial talent are increasingly footloose in the modern global marketplace and skills shortages are set to persist among key industries and occupations as the ageing of the workforce accelerates.

What was once adequate and reliable infrastructure is now tiring under the strain of age and population growth.

The economies of our trading partners in the Asia-Pacific, Latin America and the Middle East have strengthened considerably, providing both opportunities and threats to our competitiveness.

To remain prosperous, it is clear we need a state-based reform agenda that contains new ideas to raise productivity, leverage new business opportunities, strengthen communities and make Victoria even more competitive

This is the challenge we have sought to contribute to meeting in making this submission.

In doing so, we have focused our comments on those areas where VCEC suggests the greatest scope for improvement exists:

- The skills levels of the current workforce and of people about to enter the workforce.
- The long-term strategic framework guiding decisions about infrastructure investment, regulation, industry policy, the environment and liveability.
- Processes for investment decisions in infrastructure.
- Regulatory burdens and taxation.
- The role of the State Government in supporting private sector innovation capabilities.

A State Reform Agenda Needs a Vision for the State

In framing a state based reform agenda, it is important to understand what we want Victoria's future to look like.

The stocktake of Victoria's performance undertaken by ACIL Tasman for the inquiry background provides some clues.

If we take the key areas for policy reforms identified by VCEC as a starting point, it is possible to develop a sense of some of the state's future features that might be realised if we can successfully harness existing competitive advantages and build new ones.

In our view, reform success will see Victoria characterized as:

- An economy that consistently generates above-average economic and employment growth through increased productivity and investment.
- An internationally competitive state that has secured an increasing share of global trade and investment.
- A state renowned for its modern, reliable, affordable, and efficient infrastructure.
- An innovative state whose businesses are recognized as world leaders in transforming research into commercial applications in both goods and service markets.
- A state whose workforce is sought after for its skills, entrepreneurship and ingenuity.
- A destination of choice for tertiary education services and a strategic knowledge capital hub for world-leading clusters of scientific, medical and technological enterprises.
- A world leader in renewable and alternative energy supplies and technology, exporting expertise in the transition to a lower-carbon economy.
- One of the most liveable destinations in the world, vibrant, welcoming and culturally diverse. Renowned for our food, arts, sporting and natural attractions.

By cementing a vision for the state along these lines, policy-makers can ensure reform progress remains measurable and focussed.

Should economic, social, technological and/or environmental circumstances change, objectives can be periodically assessed and, if necessary, adjusted.

Advancing Victoria's Potential: The Priorities

Having indicated the importance of a state reform agenda and the need for a guiding vision for the state, we would like to now comment on those areas where arguably the greatest potential for improvement exists:

The Skills Levels of the Current Workforce and of People About to Enter the Workforce

While the Victorian education and training system has undergone a number of changes in recent times, further improvements can be realised.

Victorian business continues to struggle with seemingly simple issues, such as their ability to attract quality candidates to fill employment and apprenticeship vacancies.

Moreover, despite Victoria having a demand-driven training system, employers are finding that they inevitably have limited control over training plan delivery, a facet largely determined by training providers.

These trends point to the perennial nature of the literacy and numeracy challenge. They highlight the gaps that remain among many young people leaving school without 'business ready' capabilities, and the lack of responsiveness of the training system to the needs of industry.

To be a truly dynamic, modern economy, we need to advance beyond these obstacles.

A state reform agenda provides an opportunity to do so by ensuring further education and training reform is guided by:

- Clarity in education and training funding, performance and accountability, to lift overall quality standards.
- The promotion and reward of education excellence – whether in teaching or learning - to foster a culture that lifts foundation skills development in secondary school students to a level that is higher than at present.
- Reforms that provide a more timely and targeted response to business training needs, including through a competitive provider market that is sufficiently flexible to support niche sectors with low demand.
- Continuing support to improve equity of access for individuals disadvantaged in the labour market, as well as for business operating in thin markets.

In framing new actions, we believe attention should be given to the following areas:

Knowledge Transfer

Over the coming decade, Victoria's labour supply will be increasingly impacted by workforce ageing and the exit from the workforce of older workers into retirement.

We need to act now to ensure this experience and knowledge is not lost by supporting older workers to re-enter the workforce and/or undertake retraining to meet industry skill needs. Programs that help retired or near-retirement workers transfer their knowledge and skills to younger workers in a structured fashion should also be expanded.

Workplace Health

Workplace health has a significant bearing on productivity, participation and competitiveness. Recognising ageing workforce trends, we encourage the state government to invest more resources into an expanded preventative health strategy that builds on the successful existing WorkHealth program.

Teacher Training

Teachers play a crucial role in the skill and capability foundation of young people. With the recent establishment of national teacher standards, it is important that teacher training is focussed on improving student general capability attainment across foundation skills and improve year 12 completion rates.

The previous Teacher Release into Industry Program (TRIP) helped address gaps in teacher knowledge and understanding of workforce requirements by providing teacher placements with employers to expand their knowledge of industry trends. A refreshed model of the TRIP program should therefore be considered to expand teacher placements in industry.

Small Business

Small business must be supported to attract and retain skilled workers, apprentices and trainees.

A review of state government funded initiatives, such as training market facilitation through agent arrangements, may assist the training system to more effectively respond to employer needs. Similarly, measures to incentivise employers to take on new apprentices and trainees, such as payroll tax concessions, should be revisited in light of the difficulties facing industry in increasingly competitive times.

Early School Leaving and Early Childhood Development

One of the major areas of concern for business is student disengagement and early school leaving, along with poor literacy and numeracy skills. We consider an even stronger investment in early childhood development is crucial to underpin core competency development for students as they progress through secondary school.

As noted, in terms of secondary schooling, improved teacher performance is crucial to address early school leaving and literacy and numeracy difficulties. A recent Australian Council for Educational Research (ACER) study commented on the delivery of maths subjects as a key issue linked to student performance: boring presentations link to disengagement and student drop-out rates.

VET Reform Directions

Further improvements to the VET system and also the capability and quality of the VET workforce are key issues that require attention.

Employers continue to indicate that a number of RTO's do not deliver a quality product and see little improvement in productivity in return for their education and training investment. In our view, stronger regulation and audit standards are required to ensure that RTO's deliver quality product to meet business needs.

The Commonwealth Government Reform agenda, and its alignment to Victoria's demand led system, is an area requiring careful review. VECCI to-date has supported the retention of state control of VET regulation. This position can continue if national consistency and

improved harmonised arrangements can be implemented in Victoria to ensure quality standards are improved.

There has already been substantial change to the national training system from a Commonwealth perspective (for example, changes to incentives for Certificate II level qualifications) and further reform will be considered by COAG and MCEETYA in coming months. Consideration of any further Victorian led reform should therefore be in the context of what is ultimately agreed at a national level.

Some caution is expressed in considering substantive reform in the training system when so much has already changed and further reform may well occur over the coming year. It may be prudent to allow these changes to settle and undertake appropriate analysis of existing reforms in order to consider where the gaps are and what further action needs to be taken.

The Long-term Strategic Framework Guiding Decisions about Infrastructure Investment, Regulation, Industry Policy, the Environment and Liveability

VECCI has long supported a significant role for a long-term strategic framework to guide decisions about infrastructure, regulation, industry policy, the environment and liveability.

Our submission to the *VCEC Inquiry into Manufacturing Competitiveness (Attachment A)* outlines what we believe should be the foremost considerations and principles used to guide the development of a new industry policy for Victorian manufacturing.

Similarly, our policy paper on infrastructure, developed for the *2009 VECCI Victoria Summit (Attachment B)*, outlines in detail what we believe to be the short, medium and long-term infrastructure priorities for the state, as well as the case for improving access to infrastructure, sharpening the efficiency with which it is used and reducing the impediments to increased investment in infrastructure by the private sector.

While it is not our intention to replicate these materials in this submission, we reinforce what we believe should be the foremost considerations in setting a strategic framework to guide decisions about infrastructure investment, regulation, industry and innovation policy, regulation, the environment and liveability.

Prioritising Public Policy Reform Options

The ever-growing demand for services and infrastructure placed on state governments, who face increasingly constrained fiscal capabilities, provides a stark example of the importance of developing a clear priority setting process for public policy decision making.

In evaluating what are often competing demands on governments, both among and within various policy areas, we consider there are a number of key considerations that must be taken into account in attempting to identify and set priorities. These include whether the reform/s being contemplated will:

Materially increase state economic activity by:

- Generating new investment and employment growth.
- Raising the productive capacity of business and industry.
- Acting as a catalyst to attract new private sector investment.
- Improving the efficiency with which existing resources are used and services delivered.

Improve business competitiveness by:

- Lowering business direct and indirect costs (e.g. taxation and regulation).
- Enhancing Victoria's competitive economic and industry strengths.
- Increasing business productivity, and productive capacity.
- Improving industry access to markets, whether local, national or international.
- Facilitating new technologies and their application.

Enhance social and environmental outcomes by:

- Improving the quality, efficiency and accessibility of public infrastructure services and social amenity.
- Reducing congestion and improving end-user safety and amenity.

Understanding the Influences That Will Shape Future Competitiveness

An allied key consideration in setting a long term strategic framework to guide reform decisions is a solid understanding of the many influences that will have a discernible impact on the state's growth prospects. These influences are diverse but among them will be the not insignificant impacts of:

Growing Fiscal Pressures

Along with the Commonwealth and other states, Victoria faces considerable fiscal pressure over coming decades. These pressures are likely to reflect a combination of factors, including:

- Rising health and education costs, due to both demographic and non-demographic factors.
- Revisions to Commonwealth grant payments.
- Technology and workforce changes, including changes in productivity growth and participation rates and the introduction of new technologies.
- Environmental changes, including increased costs associated with responding to climate change and the transition to a lower carbon economy.
- Macroeconomic and structural changes.

While economic growth can ease the fiscal pressures on government, there are few substantive options to close it.

Vertical-fiscal imbalance limits the capacity of state governments to manage long-term fiscal pressures by the tax system. The Commonwealth collects around 80 percent of total national income, while the states collect only 15 percent.

This 'fiscal gap' is likely to be compounded if the Federal Treasurer accepts recent Commonwealth Grants Commission recommendations that would see Victoria's share of GST revenue fall to 22.5 percent, well below our per capita share of 25 percent.

Victoria's reliance on a relatively narrow set of 'own source' taxes and charges provides little scope to offset this revenue shortfall. Increases in state taxation would have detrimental impacts on the state economy.

Limiting or reducing spending can help, however. So too can smarter spending. Better targeting of government programs and stronger partnerships with other sectors of the community in their delivery and funding may assist not only in producing better outcomes, but also reducing the fiscal pressures facing government.

Similarly, innovative service delivery design, better monitoring and evaluation, and processes for service redesign can raise the cost effectiveness of government service delivery programs.

Inevitably, a number of key issues will need to be considered as part of the response by governments to the challenge of meeting service delivery challenges, while protecting the most disadvantaged people in the community. Among these issues is the scope to:

- More effectively target government services to those in greatest need.
- Better inform the community – including business – of the cost, quality and types of services available, empowering informed decisions.
- Provide greater choice in the types – and price – of services provided.
- Explore alternative models for the delivery of services, maximising the expertise of the private sector, where efficacious.

Intensifying Global Competition

One of the most striking features of the international economy over the past two decades has been the accelerated globalisation of production and markets.

Improvements in the cost efficiency of transport have accounted for large gains in the pace and quantity of trade.

As with other Australian states, the Victorian economy has benefited immensely from the significant growth in international trade and investment over this time. These same trends are set to continue into the next decade and will bring with them new challenges and opportunities for Victorian business.

In such an environment, it is important that the efforts of the private sector to respond to global pressures by developing new products and new markets are not frustrated – or worse, eroded – by a reform framework that has little regard for Victoria's rapidly changing place in the global economy.

Continuing Population Pressures

On some projections, Melbourne's population is estimated to grow to 5.3 million by 2026 and 8 million by 2056. Much of this growth is forecast to occur in six outer municipalities of Cardinia, Casey, Hume, Melton, Whittlesea and Wyndham.

Similarly, the Mitcham-Frankston corridor in the south-east is set to continue to develop as a major economic sub-region, providing some 30 percent of Melbourne's employment.

Our regions have already experienced both the opportunities and challenges of being major recipients of Victoria's population growth; a trend that is likely to continue into the next decade.

This trend will bring with it new challenges for policy makers in responding to the demand for improved or new services or infrastructure in vital areas like health, education, law and order, recreation, waste management, tourism and transport.

Whether considered in isolation or collectively, these influences must be front-of-mind in the long-term strategic framework guiding decisions about infrastructure investment, regulation, industry policy, the environment and liveability.

Processes Underpinning Infrastructure Investment Decisions

Reflecting our aforementioned comments in respect of the key features of a long-term strategic decision-making framework, we believe important infrastructure investment decisions should be determined on the basis of:

- Shared agreement around short, medium and longer infrastructure priorities that support state economic, social and environmental objectives.
- Projects should be prioritized into an infrastructure plan that distinguishes between infrastructure that meets urgent pressure points, infrastructure that will spur productivity and support future needs, hard and soft infrastructure, and the alternative financing options that would best facilitate individual infrastructure projects.
- Their fit within a long-term plan for Victoria that is consistent with national infrastructure plans and their coordination.
- Effective cost-benefit analysis and key performance indicators to monitor infrastructure efficiency, including options for addressing emerging infrastructure gaps.

While these considerations may provide the necessary framework for good decision-making in respect of meeting the state's future infrastructure needs, taken alone, they are not sufficient.

The many regulations applying to infrastructure planning, development and use should be regularly examined and either streamlined, reformed or removed if they are found to be failing their policy intent. The Victorian Government's current focus on significantly overhauling Victoria's planning system is welcome in this respect.

Effective governance arrangements around infrastructure also need to be regularly assessed along with consideration of new models to facilitate and coordinate infrastructure planning and financing.

The Victorian Department of Treasury and Finance (DTF) are currently playing a lead role in prioritising infrastructure projects. DTF also possesses expertise in the area of PPPs - Partnerships Victoria, for example, sits within Treasury. An extension of the existing model might involve DTF harnessing and coordinating the expertise that rests within other departments and agencies, for example, the Department of Transport, and the Office of Major Projects.

Recognising continuing population pressures into the future, metropolitan and regional growth plans will need to see an even closer integration of transport and land-use planning that strives to:

- Meet the demands for improved or new infrastructure and related services.
- Strategically influence travel demand.
- Promote greater choice in mode of travel.
- Support public transport use.

Recognising industry's future needs, 'infrastructure-ready wedges' – areas of land in the growth areas throughout Victoria (not just on the fringe of metropolitan Melbourne) must be identified and set aside for future infrastructure use.

Over the past decade, an inherent dilemma confronting choice in infrastructure spending has arisen. More than ever, community expectations are that major infrastructure projects should be completed sooner rather than later.

However, the growing limitations on most state budgets means we will need to continue to explore a range of different approaches to facilitate major capital projects, including a deeper and wider use of public private partnerships (PPPs) and user pays systems.

The challenge for key stakeholders and the wider community, therefore, is to develop a deeper appreciation of fiscal limits and the need to contemplate a shared costs model encompassing new community contributions to projects.

Recognising the structural shifts taking place in global capital markets means we need to take even greater advantage of proximate opportunities, such as unlocking Australia's vast superannuation reserves.

Reliable, medium to long-term returns are the hallmark of some infrastructure projects and could provide a further source of diversification for retirement fund managers.

The presence in Australia of the fourth largest pool of managed funds in the world is reinforced by the heavy weighting of the superannuation sector towards Melbourne and the expertise that resides here.

Regulatory Burdens and Taxation

The operation of Victoria's regulatory regime generally and the competitiveness of the state's tax system in particular play a critical role in underpinning economic growth, confidence and investment. In this context, it is crucial that these key areas remain competitive against our interstate and international counterparts.

Regulation Reform

Business recognises the important role that regulation plays in helping achieve social, economic and environmental policy objectives.

Regulation can provide benefits for business including competitive advantages through improving economic stability, operating and governance arrangements. Such regulations increase public and investor confidence and provide operational certainty.

However, because regulations affect all facets of business including inputs, prices, output and volumes, unnecessary, complex and poorly designed regulations also constrain the ability of business to provide the best product or service at the lowest cost.

The effects of numerous changes to regulations - or the prospect of changes - can be similarly damaging, leading to lost confidence, lost markets and a disincentive for risk-taking, productivity and entrepreneurship.

Given that the cost of regulations on the state economy has been estimated to be as high as \$3.3 billion per year, there is a compelling case for ongoing reform across all levels of government. Separate work by VCEC into the state's regulatory framework has highlighted the challenges ahead, with a high proportion of Victorian businesses perceiving a significant and growing regulatory burden.

VECCI therefore welcomes the government's commitment to target a 25 per cent reduction in red tape and is already assisting the Departments of Business and Innovation and Treasury and Finance in setting reform priorities on behalf of business.

Taking a longer-term perspective, we believe the process for developing and reviewing regulation needs to adhere to the following principles:

- Governments should not act to address 'problems' through regulation unless a case for action has been clearly established. This should include evaluating and explaining why existing measures are not sufficient to deal with the issue.
- A range of feasible policy options — including self-regulatory and co-regulatory approaches — need to be assessed within a cost-benefit framework (including analysis of compliance costs and, where relevant, risk).
- Only the option that generates the greatest net benefit for the community, taking into account all the impacts, should be adopted.
- Effective guidance should be provided to regulators and regulated parties to ensure that the policy intent of the regulation is clear, as well as what is needed to be compliant.
- Mechanisms such as sunset clauses or periodic reviews need to be built into legislation to ensure that regulation remains relevant and effective over time.
- There needs to be effective consultation with regulated parties at the key stages of regulation-making and administration.

State Taxation

While business tax cuts were not announced in the 2011/12 State Budget, we remain optimistic that the government recognises state tax reform has a vital role to play in stimulating new investment, increased productivity, and jobs growth.

This recognition is critical in view of the fact that the competitive position of Victorian business has already come under intense pressure from a range of cost imposts. It is not likely that these pressures will subside in the future.

While in the short-term the challenge for the government will be to ensure that the state's growth momentum does not falter, over the longer term it must ensure the state tax mix is such that resource allocation is not distorted and revenue is raised at least cost, fairly and simply.

While State taxation revenue as a share of nominal Gross State Product (GSP) puts Victoria ahead of New South Wales in the tax competitiveness stakes, we are still broadly in line with the Australian average, **not below it**.

A closer examination of state tax trends confirms Victoria relies heavily on land tax, payroll tax and stamp duties and that these taxes have been increasing in their share of total revenue over the past 10 years.

What is missing in any analysis of state tax competitiveness is detailed information on just how competitive Victoria's business taxes in aggregate are compared to other states and our international competitors.

From a taxation point of view, we know even less about just how competitive – or uncompetitive – different business cohorts; (small, medium or large firms, and different industry sectors) are relative to our competitors.

Our well established policy position is that the abolition of payroll tax must remain a major medium term priority for government and we consider any state tax reform agenda must explore revenue-neutral options to facilitate its progressive reduction.

In the interim, and a decade after the Harvey Review of State Taxes, there could be no better time to undertake a comprehensive review of state taxes with a view to shaping a new reform agenda that:

- Considers options to reduce the overall tax burden on Victorian business.
- Simplifies state taxes and charges.
- Improves equity in the incidence of taxes.
- Critically assesses existing state tax exemptions and thresholds.
- Reviews the mix of state taxes, and the mix between taxes and charges.
- Considers the scope to more effectively align state revenue with economic growth.
- Examines trends in the Commonwealth taxing effort and implications for the design of state taxes.

The Role of the State Government in Supporting Private Sector Innovation Capabilities

It is clear to VECCI that the state's innovation performance across the whole economy is critical to improving Victoria's living standards.

The effects of the GFC and most recent equity market adjustments have shown the risks inherent in our globalised world. While Victoria's response has demonstrated some resilience to external shocks to our economy, we need to build this resilience further.

This will require a state economy that is even more connected to the global marketplace; one that is not just modern and liveable, but increasingly sophisticated, dynamic, and innovative.

For public policy purposes, it is important to recognise the broad spectrum of activities encompassed by 'innovation'. These range from changes in systems and methods which produce incremental changes within a single organisation (most commonly designated as "non-technological" innovation), to those transformative changes commonly associated with the development, introduction and diffusion of new technologies ("technological" innovation).

"Innovation" is therefore a diverse set of activities demanding a tailored mix of policy responses.

VECCI supports VCEC's view that an enterprise level view of innovation is central to understanding the appropriate role for government today. The arguments for this support are that:

- Australia is relatively stronger in public sector research than private sector research.
- Innovation within individual firms makes an important aggregate contribution to the state's innovation (and economic) performance.
- The enterprise is the primary vehicle that realises the market value inherent in new ideas, methods, systems, technologies and applications.
- Wealth is created by business – but governments can make a valued contribution too.

A key challenge for governments is to better sell publicly funded research capabilities to the private sector on the one hand, and demand that the primary recipients of this public funding more aggressively pursue avenues to market on the other.

At the individual enterprise level, innovation may be represented by many activities, ranging from research partnerships with universities and other public sector research institutions on core technologies, through internally generated experience-based process and product improvements, to new ways to generate business (channels, markets, customers).

Unfortunately, public policy makers do not know a lot about the lower level innovation which produces incremental innovation activities specific to the firm. Consequently, there is limited understanding of how to trigger more of this innovation, nor are there commonly agreed public policy grounds for doing so.

Indeed, for innovation generated entirely within the firm, it is not possible to identify an all-encompassing market failure style argument for government support as there are no obvious spillovers. One way to address this is for government to create the conditions in which spillovers occur, for example by encouraging the development of benchmarking groups among non-competing businesses.

A further way is to acknowledge that customers are primary drivers of innovation at the firm level and, in doing so, look at the innovation challenge not simply as a technological challenge but as a market challenge to find new customers and markets. This rationale is consistent with the basis for existing government export support networks and programs.

Finally, even though our community's wealth is largely created in the private sector, the fact that the public sector is a significant user of community resources means innovation should be as much a goal for the public sector as it is the private sector.

Recent reports prepared by the Victorian Auditor-General on the efficiency and effectiveness of public sector performance management suggest there is scope for improvement. Benchmarking the operations of government institutions around the world on a like-for-like basis would be a positive step in this direction.

Based on the above considerations, we consider the state government can play a stronger role in supporting private sector innovation capabilities by:

- Giving emphasis on the development of 'innovation' skills in the current school curriculum, starting in early education.
- Expanding efforts to demystify innovation and support businesses to develop firm level innovation systems, including an enhanced appreciation of the role of design in innovation.
- Strengthening requirements in funding agreements with public sector recipients of research funds to collaborate with local firms
- Funding a campaign to market the capabilities of public sector research organisations to better support private sector activities.
- Refreshing existing innovation support programs to boost user-driven and non-technological innovation, in addition to continued efforts to expand technological innovation.
- Commissioning a benchmarking study of the capabilities (tools, skills and experience) of the 'innovation support' segment of the economy (including venture capital), to assess the quality of this support.

- Funding a marketing campaign to attract more R&D research centres from international companies.
- Inviting the Australian Bureau of Statistics to include the development of firm level innovation measures in its Forward Work Program
- Inviting the Auditor-General to develop a set of guidelines for public sector innovation performance measures at the level of the individual agency.

In addition, and as pointed out in our submission into the VCEC Inquiry into Manufacturing Competitiveness, we consider there needs to be a greater focus of innovation policy and related programs on the ‘firm’, as opposed to targeted sectors or industries.

This can be supported by government using its considerable leverage to place innovation at the centre of its policy development, program and purchasing activities. What is required is stronger recognition that the performance of government institutions and processes forms a critical part of the innovation, productivity and competitiveness landscape for business.

Conclusion

Despite the recent impact of global markets on household and business confidence, it is highly likely that the drive for greater productivity, innovation, sustainability and competitiveness will continue to shape our future.

In many senses, the issues we face have now been clear to us for some time, though they continue to evolve and develop.

Our industries must find their place in the world again with interest rates on the rise, the Australian dollar high, and the marketplace characterised by increasing competition and innovation.

Our infrastructure needs fundamental upgrading and expansion to meet the needs of a booming population and increased trade, in both Melbourne and regional Victoria.

Our workplaces must find, keep and maximise the abilities of good staff at a time of skills shortages, an ageing population and greater expectations of work and workplace flexibility.

Our continued momentum and economic and social success as a state will rely on a continuing process of review, thought and action.

A state reform agenda provides this opportunity.

However, such is the nature, scale and linkages associated with the reform agenda that no state government can expect to secure the wellbeing of its entire community on its own. Nor should it have to.

In VECCI’s view, a much closer engagement in our federal system is needed if we are going to secure progress on major reform areas like energy, taxation, transport, the environment, trade, innovation, education and infrastructure. This is because all of these areas are characterised by a strong Commonwealth-State component.

As with the state reform agenda, national competition policy must be refreshed, widened and deepened to take account of the changing political, social and economic landscape.

Equally, state and national reform agendas must embrace wider objectives than just competition and productivity. Building productive capacity and improving liveability must be key objectives as well.

VECCI stands ready to work closely with VCEC, state and federal governments and their agencies to shape and secure a new reform agenda that raises productivity, growth and competitiveness - over this decade, and beyond.