

TRANSCRIPT

ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into local economic development initiatives in Victoria

Melbourne — 8 November 2012

Members

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Witnesses

Mr H. Ronaldson, Secretary (sworn), and

Mr J. Hanney, Deputy Secretary, Trade and Industry Development (sworn), Department of Business and Innovation.

The CHAIR — Gentlemen, would you like to state your full names, who you work for and whether you are appearing on behalf of an organisation or yourselves?

Mr RONALDSON — My name is Howard Keith Ronaldson. I am the Secretary of the Department of Business and Innovation, and I am appearing in that capacity.

Mr HANNEY — My name is Justin Phillip Hanney. I am the Deputy Secretary of Trade and Investment within the Department of Business and Innovation, and I am here representing the Department.

The CHAIR — Could I invite you to make an oral presentation, please.

Mr RONALDSON — Thank you, Chair. I would like to start just a bit bigger before we work down to local government and just check that we are roughly talking about the same concepts. As a department, when we think economic development — in this context anyway — we think, if you look at a piece of geography — an LGA or south-east Melbourne or whatever it might be — in a particular year and it has the capacity to produce that many goods, then you roll it forward a few years and it has the capacity to produce that many goods, then you have economic development.

Most of that is done by the private sector, and most of that is generated by economic development, being economic investment. By economic investment I mean it is essentially businesses and private individuals investing in such a way that the productive capacity of the economy increases. I suppose the accounting definition is that accountants say, 'Well, if you have \$100 in the bank and you buy some shares, that is an investment.' An economist would call that a transfer of wealth from one form to another. So we are after bits of investment that actually produce further wealth.

We can certainly get more specifics around these figures, but just to keep it broad we are in a roughly \$300 billion economy, give or take. About \$80 billion of that is investment. Of that, the Government is, give or take, about \$10 billion. So obviously the vast majority of the investing in the community, the vast majority of activity that leads to what we would call economic growth, is done by private companies and firms investing in productive capacity.

That goes to the mission of the Department. There are a lot of words around this, but what it essentially means is we are there to primarily do three or four things. For the footloose investment around the place we try to market the virtues of the State. There is not much footloose investment around the world at the moment, but to the extent there is, we would hope to 'sell' Victoria to companies from interstate and overseas. If they are looking to put a plant down for various reasons somewhere in the Asian region, they might consider Victoria.

The second thing we do with spectrum investment is — and this is where most investment comes from — from companies on the ground already, and there we try to play a facilitative role. So a company, at least in a serious way, to increase its productive capacity might invest fairly rarely — maybe once, twice or three times over the next few years. Technically it invests all the time. It is buying new fleet, and it leases computers; it does all that. But actually increasing its productive capacity is a much rarer event. So we deal with a whole range of typical regulatory authorities and planning authorities through to federal authorities that are typically concerned with the art of investing, expanding on the ground.

The other function the Department is involved in is engagement with other markets, and there are a number of ways we do this. But taking one example, being overseas markets, we have a mission, if you like, to try to interest as many Victorian companies as we can in engaging with overseas markets. We do not go out nakedly and say, 'You should export.' Export, after all, is a relatively risky activity compared to selling domestically. But we do say that it is a bona fide proposition that the government of the day can help and assist companies to at least have a look at what is happening offshore, particularly in the current climate of the dollar and other forces the way they might be.

So scoping all that down — if that is broadly acceptable as to what we are talking about — when you look at the activities of local councils and you look particularly outside Melbourne, I presume they think broadly in the same way, which they do. They would hope to attract companies that would expand and create wealth and create jobs. They would hope to be, other things being equal, competitive in terms of trying to attract that sort of investment to their patch of geography.

Do not get me wrong: in some senses the exercise is a bit fraught. The answer to this always is the company should go where it is best for them to go, where there are a range of factors that suit their operation. If they are prudent — and most companies certainly are when they invest — they will take a very good look around and decide where the best factors are for them to invest.

As a broad rule of thumb, companies look at three things. Firstly, they look at the strength of the underlying economy. As a general rule companies will not invest in economies that are weak or put down roots where the economy looks weak. Secondly, they will certainly have a very good look at the prevailing tax regime. They want to understand their exposure to government. Thirdly, they will engage with a range of people from government, including local government, about the incentives that might be available to them at the front end. Having said all that, they will still make a decision geographically where to go, where it best suits their business, and then they will have a look at those factors as well.

If the emphasis today is outside Melbourne — is it?

Mrs PEULICH — No.

Mr RONALDSON — Not particularly?

The CHAIR — It is right across the board.

Mr RONALDSON — Everywhere. Okay. So broadly the locational factors come into play but are certainly a function of how they see their business model working. I will leave it there as an introduction.

Mr HANNEY — I thought I might just drill a little bit into some of the programs and initiatives that are offered by the Department. I will start with a headline which is around our business engagement model. I have a one-page slide to hand out.

The Department of Business and Innovation has geared itself around a direct engagement model with businesses, and I will just give you a headline of these numbers. There are just over 500 000 registered businesses in Victoria. About 313 000 of those are not employing; they are self-managed super funds, sole traders et cetera. Then there are about 171 000 employing between 1 and 20 people, 17 356 between 20 and 200 and then close enough to 1500 who employ 200 plus.

We have a model within the Department where we have what we call business development managers, and they are represented in each of the nine regions. So we have offices located in each of those regions and in some of the larger regional centres. If I use Loddon Mallee as an example, we would have people in both Bendigo and in Mildura. In Geelong/Barwon South we would have staff in both Warrnambool and Geelong.

Our model looks something like this. We have what is called Victoria Business Online, and we know we interact with 140 000 businesses per annum. We know that they access this online service at least five times for at least 4 minutes at a time. So whilst a lot more businesses might open it, there are a number of businesses that register and use it on a regular basis.

Our model in terms of the discussion we had — and it is almost like a case management model — is that any business that employs more than 20 we aim to have what is called a BDM, a business development manager, aligned to that company. Our target audience in those last two categories — those 18 800 businesses, we have resources to cover off about 12 000 of them. We are just in the process of opening some new offices in Ringwood. We have offices in Dandenong, Bundoora, Tottenham and we have a CBD office that turns itself externally.

In regional Victoria we sit alongside RDV. Prior to the machinery of government changes RDV sat within the Department of Business and Innovation, so the businesspeople were extracted and sit with the Department of Business and Innovation. So we pretty much have a standard conversation with each of these businesses. We talk to them about export, we talk to them about infrastructure and we talk to them about skills. We have a conversation with them about regulatory red tape.

On a monthly basis we solve somewhere between 600 and 800 firm-related issues. Some of those might be a 5-minute resolution, some of them might be a 12-month resolution. They might have a significant EPA regulatory issue, for example, that takes some 8, 9 or 10 months to get underneath and resolve. So we do that.

What we are actually chasing are the systemic business issues that arise on an ongoing basis. That is essentially our business model. It works closely with local government. It works more closely in the regions than it does in metro, and I am happy to elaborate on that a little bit later.

In addition in the regions we have a strong focus post-flood, fire and drought. The latest incident with the financial firm Banksia — we are first call in terms of the business response, for employers but also for businesses directly affected. So we would say in each of the bushfires and in each of the floods that occurred our business development managers are the people in the regions who directly respond, and generally they would work closely with both CEOs in local government and economic development staff.

There are three parts in our department that work closely with business engagement. Business engagement go out and interface for the Department. In addition we have what is called Invest Victoria, which has a pipeline of some 800 investment projects worth close enough to \$35 billion, of which about 120 or 130 of those investments are at a mature stage.

In addition we have an arm called Invest Assist which goes in and drills into planning issues — significant issues that impede business. So where there needs to be direct attention paid to rezoning of land or significant issues that impede business we have a group established to undertake that. Then, as Howard Ronaldson explained, we have a strong trade arm that organises trade missions and the like.

There is a suite of programs or initiatives that DBI facilitates that we can provide information to you, Chair, offline, whether they sit within the Government's manufacturing strategy or the Regional Aviation Fund or small business-type programs like Streetlife and the like. I heard one of the earlier questions — and it is worthwhile just thinking through the role that Regional Development Australia plays — in terms of Commonwealth-state-local government collaboration, where they work together, in particular in the regions. There is some strong leadership through those groups which are jointly owned by the Commonwealth and state. Chair, I might pull it up there.

Mr FOLEY — Thank you, gentlemen, for your contribution. One of the issues that has become a consistent theme from submissions has been the issue of the infrastructure deficit, for want of a better tag, that faces the nation, the State and, in terms of this inquiry, the local and regional economies. There have been a number of submissions made to us in regard to how in particular the fill-in of that deficit is going to assist local, regional, state and national economies. There have been lots of submissions about how to fund that deficit. The issue of state and federal COAG and who funds what we will park, because we are not asking you to enter that debate. We understand the position of the Government — —

The CHAIR — They might have had the perfect solution.

Mr FOLEY — They might, and I would encourage them to tell us, if they want to be so brave, but our particular focus is on local and regional economic strategies and how they feed back through that system. We have had submissions — from the Property Council, the Committee for Melbourne and a range of other stakeholders — as to how localised value-capture mechanisms of raising capital can be used in that respect. While I appreciate that might be, say, a Treasury policy matter in terms of its implication for taxation raising and issues along those lines, in regard to at least your dealings with businesses at a local and regional level do you see an appetite for alternative funding models beyond the current suite of government debt, public-private partnerships and privatisation circling of money back into the system, given international practice around such things as growth area bonds, site capture values and those kinds of arrangements? Is there any appetite in either the Department's policy thinking or in your stakeholder dealings with alternative funding models to help that infrastructure gap drive that local economic development?

Mr RONALDSON — Once again working up to a more relevant set of words, at least in my opinion the bits of infrastructure the State needs are big; they are not small and local. Not that there are not small and local needs, but in terms of making a real difference to the economy the bits of the infrastructure that Melbourne, for instance, needs are large and would clearly stretch the financial capacities of any government. Of course it stretches the financial capacity of state governments because — and I am happy to go not towards the specifics of COAG but at least the architecture — for reasons of unfortunate history the federal government stayed out of the funding of virtually all infrastructure in the cities. They have seen it as their responsibility to fund, by and large, infrastructure outside the capital cities — that is, away from the majority of economic activity.

In answer to your question, trying to be more helpful, it depends on what sort of infrastructure you are talking about. I am not aware that the private sector has come to play — in an equity sense — anywhere in the world, I think, in rail. If you are part of the constituency that believes that Melbourne needs additional capacity in its rail system — and it probably does if you are going to grow the CBD — then you would find it hard going getting anyone in the private sector considering putting equity into a rail system. On the other hand you would have a far greater appetite for a range of mechanisms on the road and I might add — in an economic context — roads are the most important piece of infrastructure because it is not just freight — —

Mrs PEULICH — For the productive sector rather than just the economic sector.

Mr RONALDSON — Yes. It is not that rail plays an inconsiderable role — it certainly has the vast majority of traffic such as the white-collar workers going into the CBD where I think, still, it is the biggest centre of high-value jobs in the State — but having said that, if you look at the employment map around the State and how people get to work, clearly roads are a key. They are a key obviously for freight, but the real importance of roads is that they carry the tertiary economy.

So the real evil, if you like, of congestion is that if you get systemic congestion, you will slow down the tertiary sector of the economy as much as anything else. I might add that freight is a very good user of roads when the grid is not being utilised in peak. So it depends which bit of infrastructure you are talking about. My personal view — and I should not have personal views; I should just espouse government views — is that rather than dwelling on techniques of finance or where it might come from, it is possible that we all might be on a policy journey.

I need to be careful what I say here, but we have hundreds of thousands of roads in Victoria and two are private. We have road and rail systems that unfortunately intersect. We are not unique in that in the world but we are pretty close, at least for the size of our networks. We have a command structure for the rail over one side and a command structure for the roads over the other side, and the technologies are coming where you can envisage one set of management running a transport grid and making optimal decisions.

The factors of policy development, technology development and the like will open — Victoria is much more advanced in terms of the private sector having equity in its basic infrastructure compared to most other places and more advanced than most other jurisdictions in the world in terms of management practices too. Very few places in the world, for instance, let the private sector run its rail system. There are other places but they are pretty rare. And it is a hard thing to do.

The twin bases of further policy development and further technologies will lead to greater opportunities for private equity in basic infrastructure, and when you are talking about basic infrastructure for industry it is really transport. When you look at the efficiencies that can occur, most of it is in transport.

Mrs PEULICH — On that score, you mentioned earlier that companies should go where it is best for them to go. In general we all agree with that, obviously. We saw the Eastern Bloc fall over because they had a contrary view, and when you took away the subsidies and the money and all of that it all collapsed and imploded.

Mr FOLEY — I think that is Kew and beyond.

Mrs PEULICH — I just wanted to point to a local example in my area. For 10 or 12 years a vital piece of infrastructure was opposed on the grounds of spurious environmental reasons — that remnant vegetation on a piece of reservation that had been there for 45 years somehow deserved to be preserved and that was a justification for opposing the construction of a key piece of the Dingley bypass, through Kingston City Council, which is home to vast tracts of industry and business.

The effect of that, following the building of EastLink, was that a lot of businesses were relocating along EastLink where they were going to be less congested, and obviously local business that did not have the opportunity of relocating had to suffer the congestion, the loss of time, the loss of the wear and tear on their vehicles, the money, and so forth.

My concern is that there are still too many councils that are simply anti-business. They do not see it as a priority, they live in their own structures in terms of community engagement, they have institutionalised — and

I am not saying that that is not an appropriate thing to do — the non-productive sector but alienated the business sector. There is no proper engagement. So those priorities of business, whether it is small, whether it is retail strips or business and industry, are not factored into the strategic plans of local government, which is still a \$6 billion to \$8 billion sector. It is not a major player, but it makes a difference. What is your experience in terms of dealing with local government? Can you point to some good examples, and how can we actually lift their game?

Mr RONALDSON — I will defer to Justin shortly, who has a history in local government; I do not. But the question in my mind — if you think the question is important from that point of view — is: do you have a competitive scene? If a company ranges around the place, has some idea of X number of locations that it might be interested in, are they likely to run into people who are likely to compete for their presence? Every individual case is different, but I will say a couple of things. Certainly if they want to locate outside of Melbourne, they will find a very competitive scene. I think by and large there is no doubt that regional councils — and I think from my experience most of the interface councils — are quite competitive. They really want investment.

Mrs PEULICH — Because 95 per cent of their employees travel outside of their municipality for employment. So they are desperate.

Mr RONALDSON — It goes to a lot of factors, not the least of which is that if you are on a patch that is growing economically, other benefits arise. Particularly outside Melbourne they have two challenges: one is distance obviously — not just raw distance but they are sometimes isolated from good infrastructure. So it is true that Gippslanders feel isolated from Victoria's biggest market, which is New South Wales, because there is no easy way they can get to the Hume Freeway.

The second factor is that compared to their city colleagues they have not got the skill base to draw on, necessarily. So the more investment you get, the more you grow the economy, the more activity you have, the more likely you are to build a case to attract the bits of infrastructure you might need and maintain the skill base that you will need, and I think that by and large councils outside Melbourne are very, very competitive. Justin might talk about other councils. Whether or not a particular council is keen for it or not is probably an issue, but to me the bigger issue is: if a company ranges around, say, greater Melbourne, will it be facing a range of competitive aspects that it might choose from? Broadly I would hope that is the case, but having said that, I am not an expert.

Mr HANNEY — I will probably state the obvious in terms of some of the submissions you have received, but regional and rural local governments are far hungrier for economic development and so they facilitate a lot better than metropolitan ones. For example, I was the CEO in a metropolitan council and a regional one — Yarra City Council and the Wangaratta Rural City Council, and that represents two extremes. Yarra City Council, at the time, fought vehemently to oppose GE Finance locating within the city of Yarra, whereas an interface council or a council like — —

Mrs PEULICH — Like Casey?

Mr HANNEY — Any of those would fight for economic development. Yarra City Council's argument at the time was that it is probably more appropriately located there for a range of reasons. So economic development, the closer you get to the city — excluding Melbourne City Council, which has a strong marketing role as a capital city — plays a far lesser role.

I have a couple of comments I wanted to make, particularly following a couple of Martin Foley's questions: grants commission funding does not work in terms of the Commonwealth. I will use the example again of the rural city of Wangaratta. It is 4000 square kilometres, whereas the city of Yarra is 20 square kilometres. Both of them receive grants commission funding; the ruling federally is that everyone gets a lick of funds. Yarra City Council collected more in parking fines than Wangaratta Rural City Council collected in rates. So in terms of budget, comparatively, Wangaratta Rural City Council collected incomes of \$45 million to \$50 million. In terms of their infrastructure, they had a bridge for every day of the year, they would say, and about a third of them were wooden bridges that needed replacement. The city of Yarra is 20 square kilometres. It has a budget equivalent of about \$140 million to \$145 million. So the way money is disbursed federally should be a consideration. I would make the comment that local governments are not good at coordinating their economic activities, in particular their infrastructure projects. Howard might refer to a project he was involved in down at

Gippsland and trying to get even the timing of tendering of infrastructure projects to try and achieve some critical mass.

Victoria has led for a long time public-private partnerships. Throughout the world Victoria is known as being probably one of the best at it, and again in terms of opportunities for undertaking some of those PPP projects, that could be a consideration at a local government level, more than it currently is.

The last point I want to make is that there are many infrastructure projects that sit within the regions that do not have a productivity lift, and I think there needs to be a lens put over any of the big infrastructure projects where there are different considerations of funding. There should be a direct consideration of what the project is doing to the region's productivity.

I have thought for a long period of time that local government CEOs' contracts should be tied to things like planning approvals. One of the biggest frustrations we would hear from businesses is the planning approval process. Yet there is nothing that sits there in terms of the incentive against a CEO's contract, so there is an opportunity to look within the Local Government Act at things like the timeliness of approvals.

Mrs PEULICH — Given your background in local government, how does the current electoral system nurture the corporate memory, the corporate experience, the organisational experience to lift its performance, given that only 48 per cent returned and the participation rates in voting are falling below 50 per cent in some councils?

Mr HANNEY — That is a difficult question. Again the further out from Melbourne you go, the higher the participation rate goes into the rurals and regionals. Going back to the rural city of Wangaratta, it would have a participation rate of 80 per cent-plus, so there is more participation in a regional space, but I would still say that you drive from the city of Yarra into Darebin or Stonnington and when you cross the border you would not know, and nor does it matter. Again, I am not speaking on behalf of the Department here, but I think there was a set of reforms in local government that were very beneficial for local government and there is possibly another set of reforms that could be considered.

The CHAIR — Do you have a list of those?

Mr FOLEY — I think he has invited us to look elsewhere.

Mr RONALDSON — No.

The CHAIR — Okay. If you would like to abbreviate, that is fine.

Mr CARROLL — Thank you for the presentation. The Committee is looking at the role of local government in generating economic development. What role has local government had in the super trade missions led by the Premier?

Mr RONALDSON — Some have participated — probably those councils who felt they had a greater say in some of the big issues. So Latrobe City Council participated, and they have been doing so for a long time and so has the State Government. It is interested in potentially developing the brown coal resource which the Government is looking at at the moment. And certainly it was an opportunity for them firsthand to talk to people offshore about aspects of what might be. I don't want to speak for them, but I think it is fair to say that Latrobe has been an active pro-development voice in terms of the resource and other opportunities that might flow from it for quite a period of time.

Mr HANNEY — They are a big referral body so they would do a lot of the sourcing of businesses because they know them. Frankston City Council participated, Greater Geelong City Council participated, Melbourne City Council, Latrobe City Council and I think Mildura Rural City Council participated, so there is direct participation where they see a benefit. They certainly are active in recruiting companies.

Mrs PEULICH — I have just two small questions. Earlier witnesses mentioned Mainstreet and Streetlife. Are they under your jurisdiction, and can you tell us a little about them?

Mr HANNEY — Sure. Mainstreet is a group of individuals, and I think the current president is Nicole Maslin. She is the economic development officer out at Banyule City Council. Mainstreet is a group that

essentially represents retail shopping strips; it is a representative body. It has an annual conference, and the Department sponsors the conference. The minister for small business attended the last conference and was guest speaker. They do a series of awards and so on.

Streetlife is a program that has been re-introduced. It is a program that was introduced by Minister Asher when she was previously small business minister, and she has re-introduced it as current small business minister.

Mrs PEULICH — Actually I think it was Mark Birrell.

Mr HANNEY — Was it?

Mrs PEULICH — I think so, originally. But nonetheless, we will not quibble about that.

Mr HANNEY — I stand to be corrected. So Streetlife is a program that sponsors shopping strips, essentially, so marketing activities, ‘buy local’ campaigns and the like, and it is a small grants program that matches some dollars raised locally so it is generally shopping strips — —

Mrs PEULICH — Raised locally or local government or both?

Mr HANNEY — It can be a local government contribution. Some of the shopping strips use levies, some are direct contributors themselves.

Mrs PEULICH — From my memory of when it was first introduced I think it was a dollar-for-dollar program — a dollar from local government and a dollar from the State Government.

Mr HANNEY — Yes, and it remains the same. So it is a dollar-for-dollar contribution in terms of matched funding.

Mrs PEULICH — And your program?

Mr HANNEY — At this stage there is an annual funding allocation towards it, and again the view is that we will measure the success. We are using groups like Mainstreet to assist in promoting and facilitating it. So again it is one that we are outsourcing to them. They are closer to all of their members so we are using them to assist in the assessment and the promotion.

Mrs PEULICH — So who decides on who gets the funding?

Mr HANNEY — Ultimately the Minister, but they will be used as a body to provide advice to the Minister.

Mrs PEULICH — But they are linked to a particular geographic area?

Mr HANNEY — No, Mainstreet is state-wide.

Mrs PEULICH — Thank you.

The CHAIR — Gentlemen, thank you very much. We are very grateful for your attendance today and the information you have provided. You will receive a copy of the transcript of today’s proceedings. Feel free to make typographical changes but nothing to the substance of the document. We are very grateful for your input today. Thank you very much.

Committee adjourned.