

Making Western Sydney Greater

Edition 5 – H1 2017



Foreword

Cautious optimism

After five editions of the Making Western Sydney Greater research, some clear trends in the performance and attitudes of businesses across Western Sydney are clearly apparent.

As a whole, the Western Sydney economy is strong – at least comparable to (if not ahead of) Sydney and NSW, and ahead of the National average. Businesses in Western Sydney have grown their businesses, exceeded their profit targets and expanded their workforce consistently over the last few years.

This is the trend for the region as a whole. There are some stand out businesses, but also a core group of businesses (about 10% of the business population) that are finding economic conditions particularly challenging. These businesses are from a broad range of industries and are located across the region.

Past performance and positive sentiment are great, but there is also no question that businesses (in Western Sydney and in general) will be facing significant challenges in the future. A big challenge is the impact of automation on businesses, their products and services, and their workforce. We explore this topic in the fifth edition of Making Western Sydney Greater.

Making Western Sydney Greater is an ongoing effort. Undertaken by national accounting firm William Buck, in partnership with St. George, the Western Sydney University and Western Sydney Business Connection, our research stems from the long term commitment to Western Sydney that we share.

The next survey will be undertaken in mid 2017. We encourage you to participate and be part of this unique research. Help us identify the issues and opportunities impacting businesses in our region and make Western Sydney greater.

Contact us on research@williambuck.com for more details.

Your participation will help drive positive change for Western Sydney.

Highlights

In the fifth edition of the Making Western Sydney Greater report, there is a mix of optimism and caution.



Business sentiment

Business sentiment increased notably in the fifth edition of Making Western Sydney Greater, reaching its highest point over the survey's history. Sentiment has progressively improved over the last two years, and with the ongoing investment across the region, is expected to continue to be strong over the course of this year and beyond.



Economic performance

The revenue and profit results achieved by businesses, and their forecasts for the coming six months, increased from the previous survey showing a real strength in economic activity across the region. There is an element of caution in the employment outlook, with a softening of growth in full time employment by Large Businesses being forecast.



Automation

Western Sydney business see real benefits for their business, and for the region, from increased automation. New industries, reduced costs and greater productivity are some of the key benefits. But they also see a significant reduction in the workforce that will be needed and challenges in retraining their workforce in the new skills required to operate in an increasingly automated workplace.

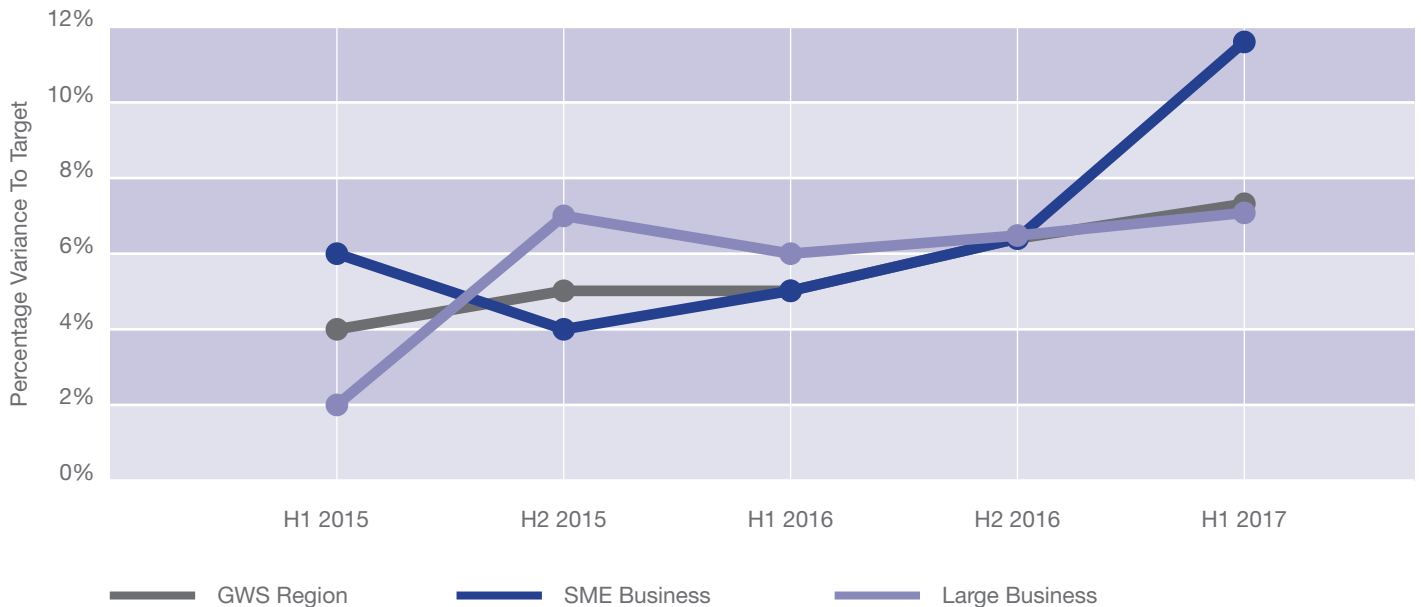
Economic Performance

Revenue

Revenue expectations amongst businesses in Western Sydney have moved to their strongest levels since the commencement of the Making Western Sydney Greater research in 2015.

SME Businesses expect to exceed their revenue targets by 11.75%. This is higher than the expectation for businesses generally across the region, where actual revenue is expected to be 8.86% over target. Large Businesses are forecasting a strong result, being to exceed their revenue targets by 7.35%, up from 6.6%.

In the last survey, businesses generally across the region expected to exceed their revenue targets by 6.50%. The actual revenue results for the current survey show that revenue exceeded targets for that survey period by 5.06%, which is marginally behind expectations but still a strong outcome.



Economic Performance

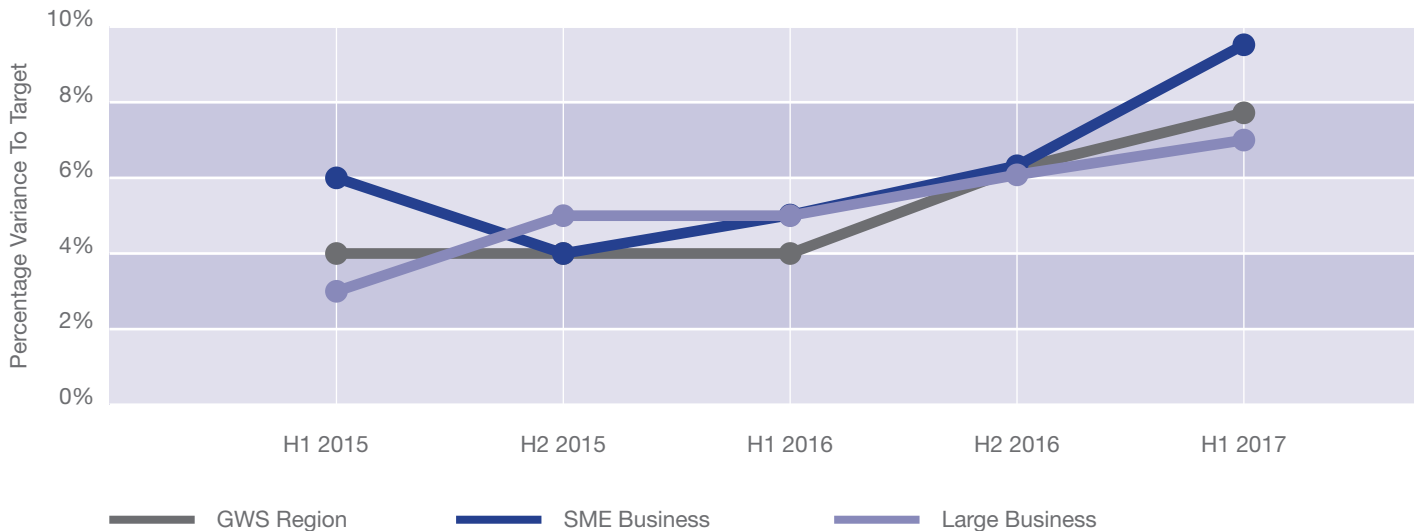
Profit

Forecast profit expectations increased in the current survey period for SME Businesses, Large Businesses and businesses generally across the region.

SME Businesses are forecasting to exceed their profit targets by 9.40%, with Large Businesses forecasting to exceed their profit targets by 6.99%. The average for all businesses across the region was 7.65%.

Consistent with the trend reported in the previous survey period, the above target revenue expectations are also expected to translate into increased profits.

Businesses indicated that they achieved or exceeded the profit expectations reported in the previous survey. However, the expectation was that profits would be 6.30% ahead of targets, but the actual results show that profits were only 3.96% ahead of budget. This is still a positive outcome, but indicates potential pressures on margins.



Economic Performance

Capital expenditure

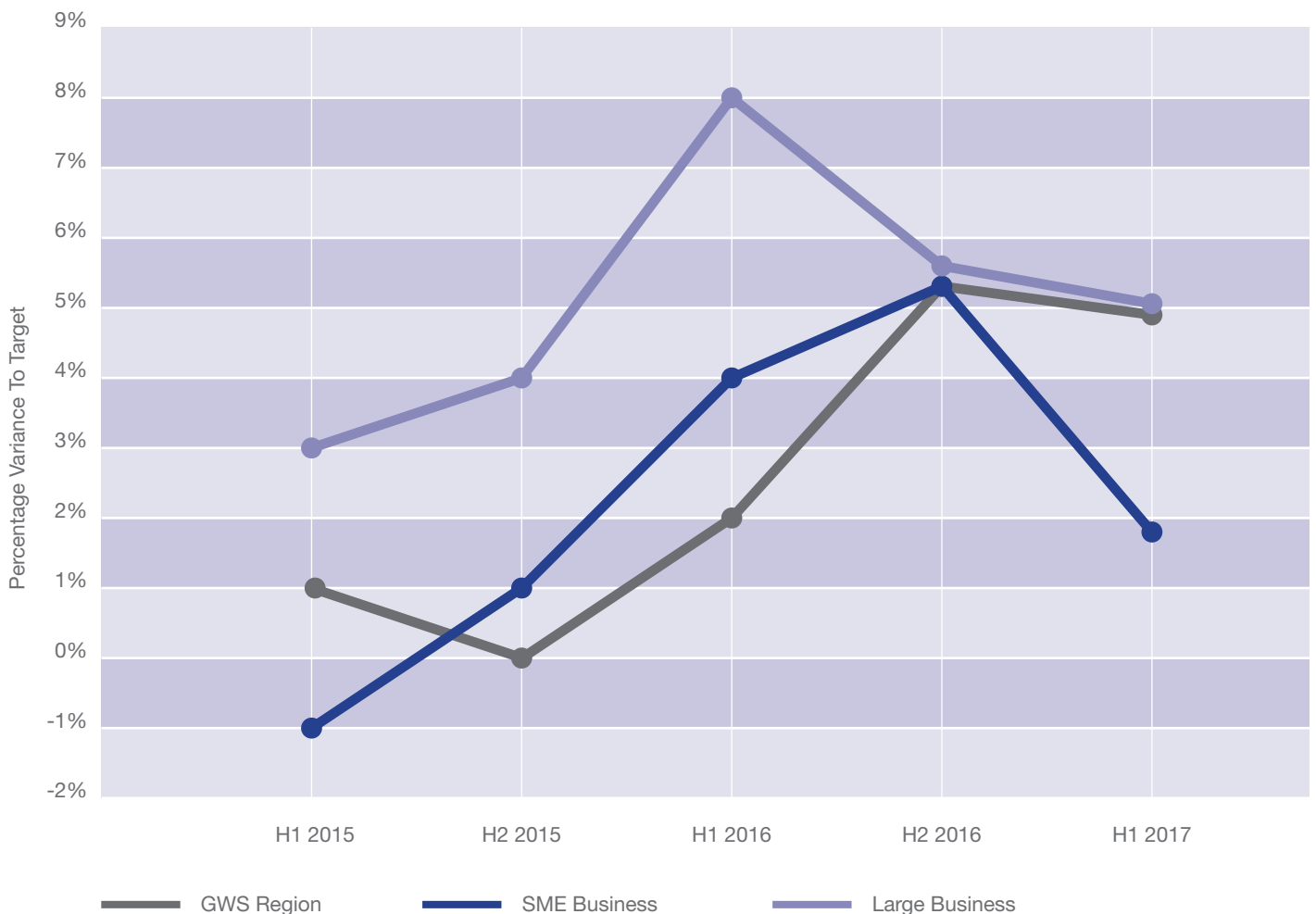
Expectations regarding capital expenditure continue to be positive, with businesses in general, SME Businesses and Large Businesses all expecting to exceed their budgeted capital expenditure.

The expectations for Large Businesses has continued to trend down, but still remains strong at 5.06% ahead of budget.

The expectations for SME Business decreased significantly, to be only 1.80% ahead of budget.

Fifty per cent (50%) of businesses across the region, including 57% of the Large Businesses, expect to increase their capital expenditure. This is up from the results in the previous survey, where 41% of business expected to increase their capital expenditure.

The capital expenditure expectations continue to indicate a sustained strength in the Greater Western Sydney economy.



Business Sentiment

H1 2017

36.75
Positive

H2 2016

26.39
Positive

H1 2016

18.18
Positive

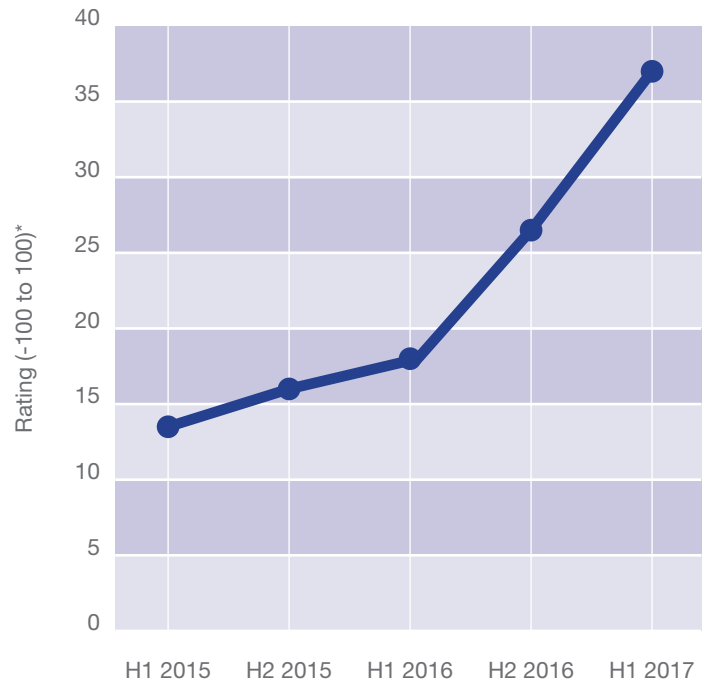
H2 2015

15.83
Positive

H1 2015

13.49
Positive

Business sentiment in Western Sydney has continued to strengthen, achieving the highest result in the Business Sentiment Index over the five periods that have been measured.



* The Business Sentiment Index is based on a scale of 100 (very positive) to -100 (very negative) with 0 being neutral. The index indicates the business outlook of the respondents for the next six months.

Business Outlook

Overall for businesses in Western Sydney, forecast revenue, profit and capital expenditure continue to be ahead of budget and the Business Sentiment Index has achieved its highest recorded result.

This outcome indicates a resilience and strength in the Greater Western Sydney economy.

Business Sentiment is strongest in the largest businesses (those employing more than 100 employees) at 53.74, and weakest (but still a positive result) in the medium size businesses (those employing between 20 and 100 employees) at 26.05.

Most sectors reported a Business Sentiment in line with the overall result for the region, but sentiment was more positive in the West subregion at 41.70 and least positive in the South West subregion at 16.33 (although again it should be noted that this result is still a positive result).

The Westpac-Melbourne Institute SME Index, which aims to provide information about the economic health of Australian small and medium sized enterprises, rose at the end of 2016 to 100.7, passing the 100 neutral mark and continuing the upwards trend shown over 2016. The index for New South Wales businesses was 110.4.¹ Western Sydney as a region continues to have a more positive economic outlook than the broader Australian economy, and one that is at least as strong, if not stronger, than the NSW economy.

There continues to be a spread of positive and negative responses, indicating pockets of the economy that are facing real challenges. The general economic conditions and price pressures from customers continue to be cited by businesses as major factors contributing to their negative or weaker outlook.

Automation has had, and will continue to have, a significant impact on businesses. Productivity and reducing in costs are seen as two of the major benefits that can be achieved by businesses from automation. However, despite the significance of the issue, there was minimal difference in the economic outlook between businesses that had developed plans for automation in their business as compared to those who had not.

Where a material variance was observed was between those businesses who saw automation as a positive for their business (41.56), as compared to those who saw automation as neutral or a negative for their business (28.57). Rather than economic cycles, perhaps it is these more disruptive changes that have the biggest impact on business sentiment and expected performance?

With the continued strengthening of the Australian economy and ongoing infrastructure development across Western Sydney, it is expected that the business sentiment, and actual financial outcomes for business, will continue to be strong over 2017 and beyond.

Business Growth

86%

The percentage of Large businesses and SME Businesses with business growth as an objective for the coming 12 months.

15%

The average expected level of growth for the coming 12 months.

12%

The actual level of growth achieved in the previous 12 months (in line with the 12% expected growth reported in the previous survey).

Western Sydney business have a strong intention to grow, and grow at a significant rate.

The vast majority of businesses – 86% - have plans to grow their business over the coming 12 months, with an average projected growth rate of 15%.

That may seem ambitious, but in context these businesses reported an actual growth rate of 12% for the previous 12 months, which is in line with 12% forecast reported in the last survey.

This outlook is shared reasonably consistently across business sizes, industries and locations.

There is a familiar ring to the biggest challenges that businesses are facing. The clear number one challenge is around employment, in particular being able to recruit the employees with the right skills. Workforce related issues are consistently identified as one of the biggest impediments for businesses in Western Sydney.

Other key challenges facing businesses include:

- Increased levels of competition
- The cashflow impact and financing of growth
- Government policies/regulation

In terms of factors critical to success of the business over the next 12 months, apart from dealing with the employment related challenges, businesses see three key success factors:

- Innovation and new product/service development
- Expanding their online presence
- Differentiating their product/service in the market

The challenges and success factors aren't unique to businesses in Western Sydney, but what they highlight is:

- The efforts of Government, educational institutions and businesses to improve the skills of the Western Sydney workforce needs to be an ongoing priority
- Dealing with issues such as the impact of automation and new technologies on businesses is becoming more and more important to the success of a business.

Employment Trends

48%

of Western Sydney businesses expect to increase their full time workforce in the next 6 months.

47%

of Western Sydney businesses expect no change to their full time workforce in the next 6 months.

5%

of Western Sydney businesses expect to decrease their full time workforce in the next 6 months.

As a region, employment intentions are positive with the intention to employ being maintained, or improving marginally, from the previous survey period with SME Businesses and Large Businesses expecting to increase their full time and part-time workforce.


The use of contractors is expected to decrease from the level seen in the previous 12 months. The casual workforce was also expected to increase, potentially due to seasonal factors, as a similar trend was observed over 2015.

The unemployment rate is forecast to trend up from 5.7% in February 2017 to 6% by June 2017. For NSW, the unemployment rate has been sitting around 5.1%/5.2%.² The employment intention position for businesses in Western Sydney appear more positive than the broader Australian economy, and the NSW economy, as Western Sydney businesses expect to continue to grow their workforce over 2017.

The trend for larger businesses should be noted. The level of increase in full time employment has nearly halved over the last 12 months, to now be at 3.5%, down from a high of 6%. There is not a corresponding shift to other forms of employment, with no real increase expected in the part time, casual and contractor workforce. These same businesses are expecting to grow and achieve strong financial results. The reason for the reduction in their employment intentions is not readily apparent. Given the importance of the Large Business segment to the Western Sydney economy, this trend should be monitored.

Employment Trends

Forecast increase/decrease in workforce




| |  GWS Region H1 2017 |  SME Business H1 2017 |  Large Business H1 2017 |
|-------------------|---|--|---|
| Full Time | 4.02% H2 2016 3.19% H1 2016 1.96% H2 2015 1.90% H2 2014 -0.50% | 4.64% H2 2016 2.11% H1 2016 2.29% H2 2015 1.60% H2 2014 1.65% | 3.50% H2 2016 4.47% H1 2016 6.00% H2 2015 3.30% H2 2014 4.15% |
| Part Time | 2.06% H2 2016 0.90% H1 2016 1.35% H2 2015 0.20% H2 2014 -1.20% | 1.79% H2 2016 -1.05% H1 2016 1.71% H2 2015 0.30% H2 2014 -0.10% | 1.30% H2 2016 1.18% H1 2016 2.50% H2 2015 0.70% H2 2014 -1.20% |
| Casuals | 1.58% H2 2016 0.96% H1 2016 3.65% H2 2015 -0.30% H2 2014 0.60% | 0.38% H2 2016 1.05% H1 2016 1.29% H2 2015 0.40% H2 2014 -0.30% | 1.30% H2 2016 0.26% H1 2016 5.00% H2 2015 0.00% H2 2014 -0.60% |
| Contractors | 1.13% H2 2016 2.41% H1 2016 1.76% H2 2015 0.30% H2 2014 -0.60% | 0.71% H2 2016 3.16% H1 2016 0.57% H2 2015 0.40% H2 2014 1.90% | 0.20% H2 2016 2.24% H1 2016 2.50% H2 2015 -0.30% H2 2014 0.60% |
| Employment Intent | Slightly positive | Slightly positive | Slightly positive |

Expected reductions in workforce

Just under 10% of businesses in the region expect to decrease their workforce over the next 12 months, with this intention more prevalent in smaller businesses. Price pressures from customers and current economic conditions are the dominant factors driving these intentions. Natural attrition and termination of specific under-performing employees continue to be the preferred ways to manage reductions in employee numbers. These results have not changed materially from the previous survey.

Employment Trends

Actual increase/decrease in workforce

| |  GWS Region H2 2016 |  SME Business H2 2016 |  Large Business H2 2016 |
|-------------|---|--|---|
| Full Time | <i>Actual 3.49%</i> <i>Forecast 3.19%</i> | <i>Actual 3.21%</i> <i>Forecast 2.11%</i> | <i>Actual 2.63%</i> <i>Forecast 6.00%</i> |
| Part Time | <i>Actual 1.44%</i> <i>Forecast 0.90%</i> | <i>Actual 2.32%</i> <i>Forecast -1.05%</i> | <i>Actual 0.00%</i> <i>Forecast 1.18%</i> |
| Casuals | <i>Actual 1.34%</i> <i>Forecast 0.96%</i> | <i>Actual 0.18%</i> <i>Forecast 1.05%</i> | <i>Actual 1.05%</i> <i>Forecast 0.26%</i> |
| Contractors | <i>Actual 1.24%</i> <i>Forecast 2.41%</i> | <i>Actual 0.71%</i> <i>Forecast 3.16%</i> | <i>Actual 3.42%</i> <i>Forecast 2.24%</i> |

The actual v forecast employment changes for H2 2016 present a noteworthy trend.

Looking at the region as a whole, the forecast increase in full time, part time and casual employment appears to have been achieved. It is only in respect of contractors where the increase was not as much as was forecast.

For SME Businesses, the forecast increase in full time and part time employment was achieved, but the actual increases in the casual and contractor workforce were limited and were below forecast.

The most notable trend is for Large Business. The actual growth in full time employees was a solid 2.63% but well below the bullish 6% growth that was forecast. In the previous period (H1 2016) the actual growth in full time employment was with 2.76%, as compared to a forecast for that period of 4.47%.

This trend, coupled with the reduced level of expected growth in full time employees over H1 2017, signals a material change in the employment outlook for Large Businesses.

Large Business reported no growth in part time employees and limited growth in their casual workforce. The actual growth in the contractor workforce was 3.42%. That is higher than the 2.24% growth that was forecast, but well below the 0.20% growth in contractors expected for H1 2017. As noted previously, this trend in full time employment for Large Businesses is one that should be monitored.

The Impact of Automation

67%

of Western Sydney businesses believe automation will displace more jobs than it creates by 2030.

47%

of Western Sydney businesses believe automation is a good thing for their business.

Automation

For the fifth edition of Making Western Sydney Greater, we asked businesses about their views on the impact automation, robotics, artificial intelligence and similar technologies (“automation”) are having, and are expected to have, on business.

Automation is considered one of the most fundamental strategic issues facing businesses today.

History tells us that as economies move through different eras, businesses adapt and change. New businesses emerge to fill new needs or exploit new approaches. Existing businesses evolve their products and practices. But inevitably, some business fail. In each era, productivity has improved, employment has increased and the financial outcomes for the overall economy have been positive.

Despite this history, there is a concern that the current era of digital disruption is different. The pace of change is significantly quicker. Cutting edge technologies can be rendered redundant overnight as new and better products and services are released to the market. The instigators of change are not confined to the local market and established players, but can come from any location around the world, and from start-ups, market leaders or those in between.

Automation has created a level of uncertainty for businesses that is probably unprecedented in history.

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The Impact of Automation

We asked Western Sydney businesses what they saw as the benefits of automation for Western Sydney, and the challenges that would need to be addressed. These are their views.

Future City

Western Sydney has the opportunity to design its new and redeveloped commercial and industrial areas to be purpose built for the digital age. From collaborative workspace to allow for remote working, to state of the art manufacturing facilities and distribution centres, the infrastructure and greenfield developments across the region give Western Sydney a unique opportunity to be a city built for the future.

Newer industries

Western Sydney's strong manufacturing base and diverse workforce can be leveraged into advanced manufacturing and new industries producing high value outputs that are internationally competitive in terms of price and quality.

Youth

Demographically, Western Sydney has a young and well educated population. Automation and the digital age presents the region with an opportunity to attract businesses and create employment hubs that focus on the jobs that the next generation of the workforce will be seeking, creating more quality employment for Western Sydney residents closer to their homes.

Cost

Automation can be expensive. Financing the acquisition of new technology and implementing the changes across a business can be a costly, risky and time consuming process. This is one of the biggest impediments for Western Sydney businesses to embrace further automation.

Awareness

Many businesses in the region are aware of the need to automate functions in their business but are not across the technology that exists and the ways it could be implemented. Even more than this, most businesses don't know who can assist them in finding out this information.

Training

As with so many business issues, employees are key. Businesses are finding it a challenge to recruit people with the skills to operate in a more automated workplace. They are also finding it challenging to train and retrain their existing workforce in the new skills needed due to increased automation.

The Impact of Automation

65%

of manufacturing businesses believe automation will displace more jobs than it will create by 2030.

88%

of manufacturing businesses believe automation will be good for their business.

Manufacturing: The “Early Adopters”

Automation has already been impacting on some industries for many years. The manufacturing industry is a good example. Since the advent of the production line concept, manufacturing businesses have been working to increase efficiency and productivity through refining and automating steps in the production process. This has led to widespread use of robotics and advanced machinery, in many instances replacing functions previously performed by individuals, or in other instances enhancing the work undertaken by the individual. Manufacturers see automation as reducing the workforce required to do routine, manual or traditionally “blue collar” roles as well as clerical “back office” functions, but they see less of an impact on these roles as compared to the view of businesses generally. Manufacturers expect there to be less of an impact of the workforce performing more complex, traditionally “professional” roles. Overall, Manufacturers believe that automation has reduced the overall number of employees and going forward, they believe that automation will displace more jobs than it creates.

Manufacturers were strong in their view that automation is leading to increases in productivity and that businesses will automate any function that is cost effective to automate.

Like most businesses, Manufacturers recognise that if they don’t automate substantial parts of the business, they will struggle to compete in the coming years, but they don’t tend to have a plan in place to deal with the issue of automation.

Key benefits of automation:

- Greater productivity
- Reduced employment costs
- Increased safety
- Improved quality

Automation can be key for Western Sydney Manufacturers competing with products manufactured in lower labour cost countries.

A manufacturing specific survey identified that 57 per cent plan to invest in robotic solutions, 36 per cent of people plan to invest in automation via materials handling, a quarter of respondents plan to spend on implementing an “Internet of Things” and 20 per cent will spend on logistics.³

The challenge for Western Sydney manufacturers is to find the time to properly assess how available automation technologies could be profitably utilised in their businesses. Those that do so, may be able to better compete locally and internationally. Those that don’t, may find the future increasingly challenging.

The Impact of Automation

77%

of Property / Construction businesses have already automated a significant number of functions and processes.

12%

of Property / Construction businesses in Western Sydney see automation as a negative for their business.

Property / Construction: The “Here and Now”

Automation, in particular robotics, has been good at performing repetitive, standardised tasks. The more that uncertainty was introduced into the function, the less suited the function was to automation. This had restricted the impact of automation on the Property / Construction industry as compared to other industries, such as Manufacturing.

Recent advances in robotics technology has gone a long way to overcoming this limitation, and when combined with other digital breakthroughs such as 3D printing, has meant that automation is now increasingly impacting on the Property / Construction industry. Some of the potential impact can be seen by observing other industries.

For example, parts of the stevedoring systems at Port Brisbane and Port Botany has been automated, which now meant almost the whole of Brisbane’s container terminal was run remotely from Sydney. That allowed for much better safety, maintenance, fuel efficiency, and speed in unloading ships, resulting in an enormous impact on productivity to the whole supply chain.

Hundreds of autonomous trucks and drills have been deployed on Rio Tinto mines, such that now Rio Tinto now runs 14 mines in the Pilbara, six in the Hunter Valley, three in Mongolia, and four in the US all from a centralized control centre in Brisbane.⁴

Technology providers see the construction site of the future as looking very different. Instead of men in high-visibility jackets and hard hats, there are going to be drones buzzing overhead, robotic bulldozers and 3D printers churning out new structures.

Are Property / Construction businesses in Western Sydney ready to embrace these changes?

Property / Construction businesses in Western Sydney are in fact more likely than businesses in general to have already automated a significant number of functions and processes in their business and are more likely to have assessed the impact of future automation on their business. Unfortunately, like many businesses, they haven’t put clear plans in place to deal with the issue.

Finding the right employees to manage increased automation, and retraining the existing workforce, are seen by Property / Construction businesses are some of the biggest challenges presented by increased automation.

Where Property / Construction businesses stand out is in respect of training. These businesses are much more likely that other businesses to place a greater emphasis on training and retraining employees as a result of the impact of automation.

The Impact of Automation

25%

of professional services businesses have a clear plan in place to deal with the issue of automation.

60%

of professional services businesses believe if they don't automate substantial parts of their business they will struggle to compete in the coming years.

Professional Services

There is a perception that professional services will not be as impacted as other industries by automation.

Whilst Western Sydney businesses believe that automation has reduced the workforce required for routine, manual or traditionally “blue collar” roles, as well as clerical “back office” roles, they don't believe that there has been a reduction in complex, traditional “professional” roles. This distinction is particularly apparent in the views of the Professional Services businesses.

Professional Services businesses don't believe that automation has resulted in a reduction of the overall number of employees in their business.

A lack of understanding of the options for automation in their businesses is seen as a major impediment. Whilst Professional Services businesses may recognise the need to automate, many simply do not know how they can actually implement this.

Automation is seen have the benefits of productivity gains and cost savings, but also as an avenue for developing new business lines.

In context, robotics is predicted to automate or eliminate up to 40 percent of transactional accounting work by 2020. A similar impact is probable for other Professional Services providers. The reality is that the traditional Professional Services industry will likely be radically different by 2030, if not before.⁵

A real challenge for Professional Services businesses is training. The issue is twofold. Like most industries, there is a need to retrain the existing workforce to operate in an automated environment. But further, many of the tasks that are being automated are the tasks used to train new employees in the fundamentals of the business. How will the employees of the future be trained?

Yet less than 10% of Professional Services businesses have actively engaged with industry bodies, government, educational institutions and others to understand and manage the potential impact of automation on their business.

Businesses across Western Sydney are strongly of the view that automation will increasingly impact on a broader range of roles than it historically has. Manufacturing has been significantly impacted, and has adapted. Property / Construction is seeing the impact and making changes. Is the Professional Services sector mistakenly seeing this as an issue that will affect others but not them? This would appear to be a real risk, but also an opportunity for the Western Sydney Professional Services businesses that can embrace the changes brought by automation.

Business Population⁶

28%

The percentage by which the Western Sydney workforce exceeds Western Sydney employment opportunities.



Self Employed (no employees)*

- 60.1% of businesses
- Approx 78,000 businesses

226,000

The number of Western Sydney residents that need to travel outside the region each day for work.



Micro (1-4 employees)*

- 28.2% of businesses
- Approx 36,700 businesses

80%

The percentage of the Western Sydney workforce employed by the SME & Large Business segments (15,200 businesses).



Small (4-19 employees)*

- 8.7% of businesses
- Approx 11,300 businesses






Other (Medium and Large, 20 or more employees)*

- 3% of businesses
- Approx 3,900 businesses

*Based on ABS classification

Key Concepts

|  Micro Business |  SME Business |  Large Business |
|---|---|---|
| 4 or fewer employees | 5 – 100 employees | 101+ employees |
| Privately owned | Typically privately owned | Includes private business, public companies, Government entities and some other entities. |
| Australian owned | Typically Australian owned, but includes some foreign owned businesses | Australian and foreign owned |

The business classifications are consistent with those used by the ABS.

About the Respondents

- The Making Western Sydney Greater reports are based on a survey of approximately 200 businesses based in Western Sydney.
- The fifth edition of the Making Western Sydney Greater survey was conducted in March and April 2017.
- The respondent businesses were approximately 20% Large Business, 50% SME Business and 30% Micro Business.
- Approximately 90% of the individuals completing the survey identified themselves as business owners or senior management (CEO, CFO, Director or equivalent).

Source Information

Business Outlook

¹ Westpac-Melbourne Institute Small Business Index December 2016

Employment Trends

² Australian Bureau of Statistics, 6202.0 Labour Force, Australia March 2017

The Impact of Automation

³ <http://www.manmonthly.com.au/news/money-automation-ur-survey-says>

⁴ <http://sites.thomsonreuters.com.au/workplace/2016/06/30/use-of-automation-has-profound-impacts-for-australia>

⁵ <http://www.afr.com/business/accounting/robotic-software-sweeping-large-accounting-firms-and-clients-20170417-gvmkap#ixzz4eeBSDqd0>

Business Population

⁶ A Plan for Growing Sydney, NSW Planning & Environment



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