

Making Western Sydney Greater

Q4 2015

Foreword

Image counts. Perception matters.

That is what the respondents from the third Making Western Sydney Greater report are saying. In this report we have interviewed and drawn on the responses of over 200 business owners and senior managers from across the region, obtaining their insights and ideas.

A negative perception of the region was seen as a real problem for businesses based in Greater Western Sydney. Public transport, information and communication technology infrastructure and the extent of Government support were other stand out issues.

Despite local and broader challenges, the financial outlook and growth opportunities for businesses in Greater Western Sydney appear to be strong, and stronger than that for the overall Australian business community.

Our next survey (due for release in mid-2016) will look in more detail at how we can address the stand out issues affecting Western Sydney businesses.

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 June 2016. We encourage you to participate, and be part of this unique research which is being used to inform Government policy and programs.

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

Your participation will help make Western Sydney greater.

The Story So Far

This is the third Making Western Sydney Greater report, and already some clear trends and issues have emerged.



Business outlook

As a general rule, businesses in Greater Western Sydney have a positive outlook. Business sentiment is positive, growth is an objective across businesses of all sizes and industries, and there is an intention to increase employment. This positivity has been maintained even when the broader Australian economy was trending to the negative. Our research results consistently indicate an underlying strength in the Greater Western Sydney economy.



Employment related issues

Ahead of anything else, employment related issues are the dominant obstacle and impediment for business. Consistently, issues such as payroll tax, workplace regulation, cost of labour, attracting skilled employees, training the workforce and similar issues are being identified by businesses as major impediments for their growth.



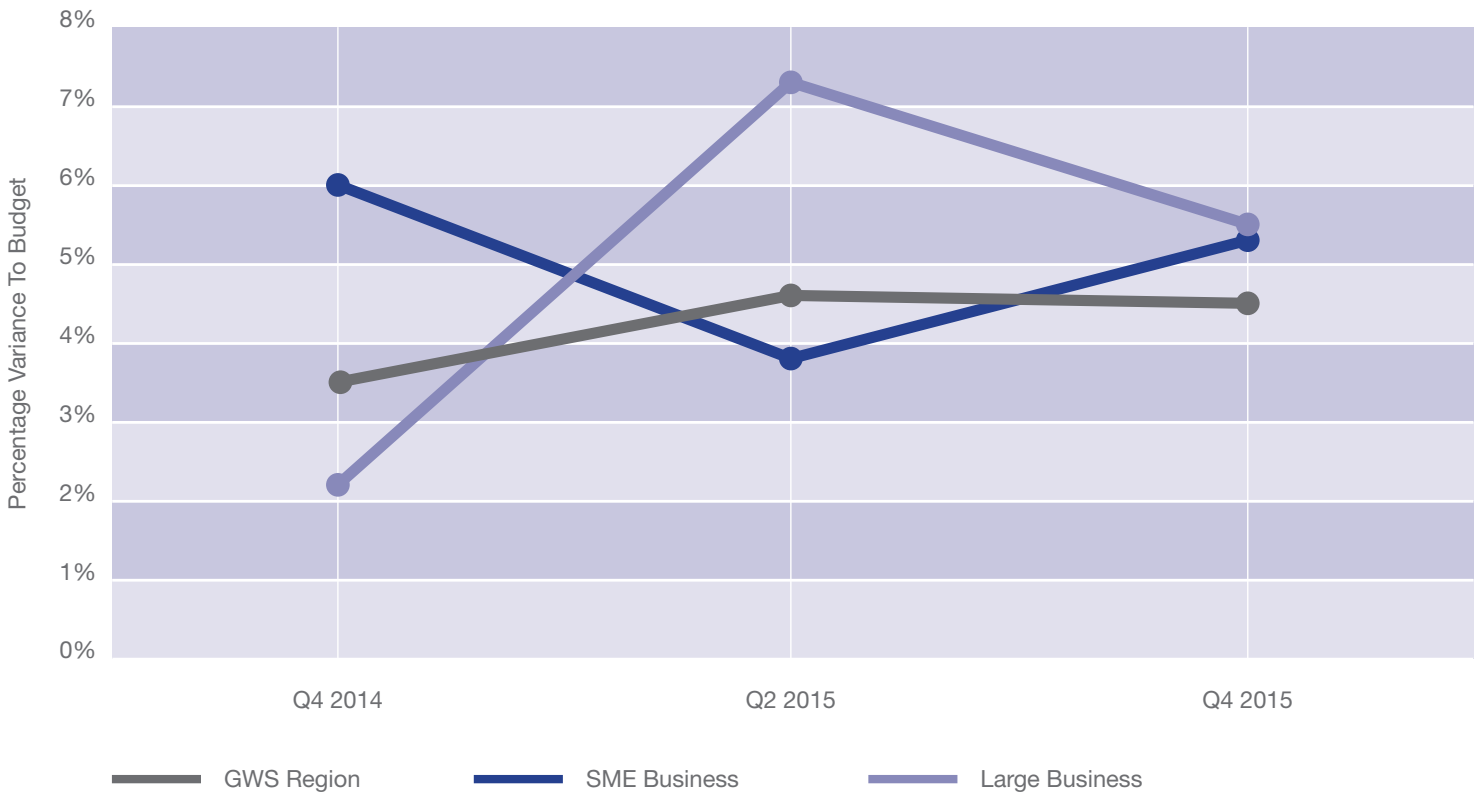
Public transport

On a broader level, public transport is another issue which is consistently identified as hampering businesses in Western Sydney. Some areas are well serviced by public transport, but many are not. Improving public transport is one of the most effective actions that Government can take to support businesses in Western Sydney.

Economic Performance

Revenue

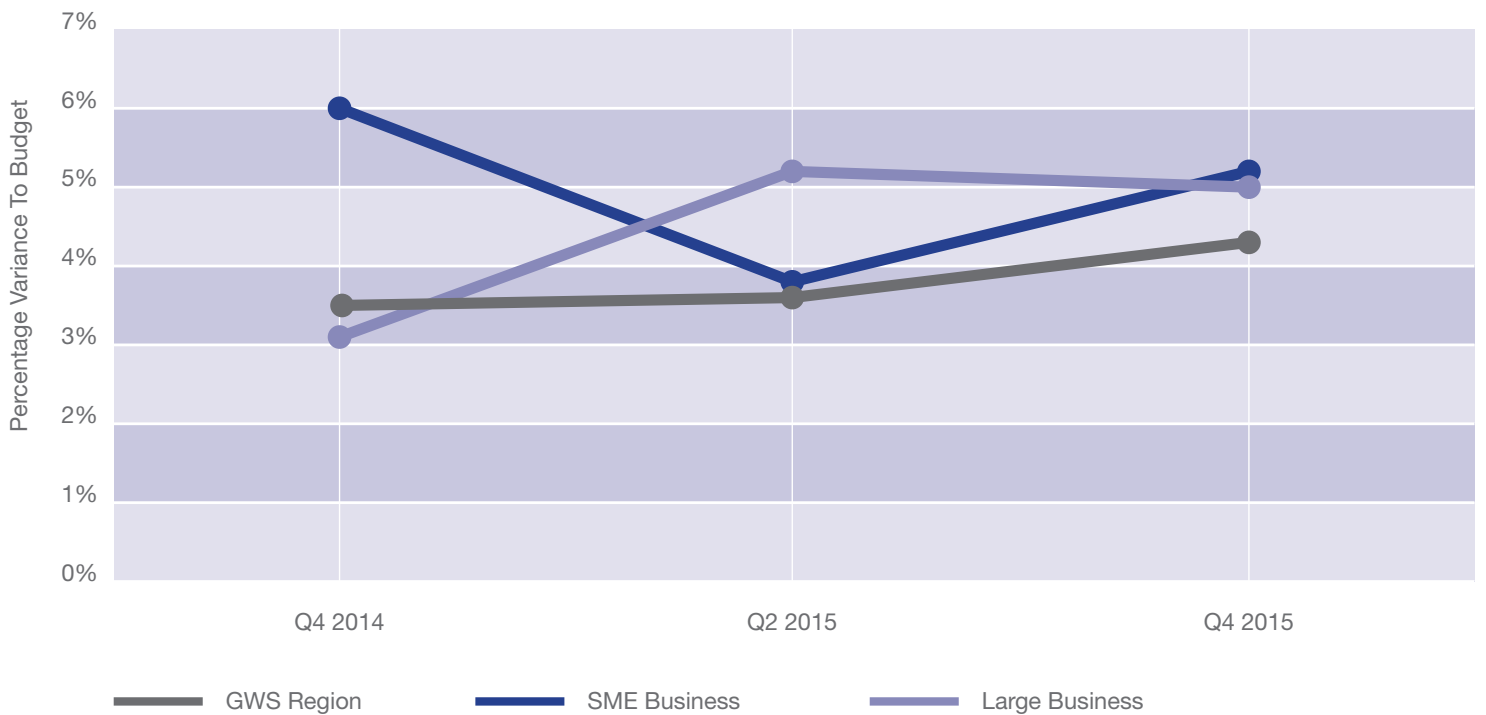
The graph shows the extent by which businesses are forecasting that their revenue for the coming 6 months will exceed their budgeted revenue. Large businesses and SME businesses continue to be positive in their expectations on forecast revenue, and are marginally ahead of the expectations of the broader Greater Western Sydney Region (which includes Micro business, Sole Traders, Government and other entities).



Economic Performance

Profit

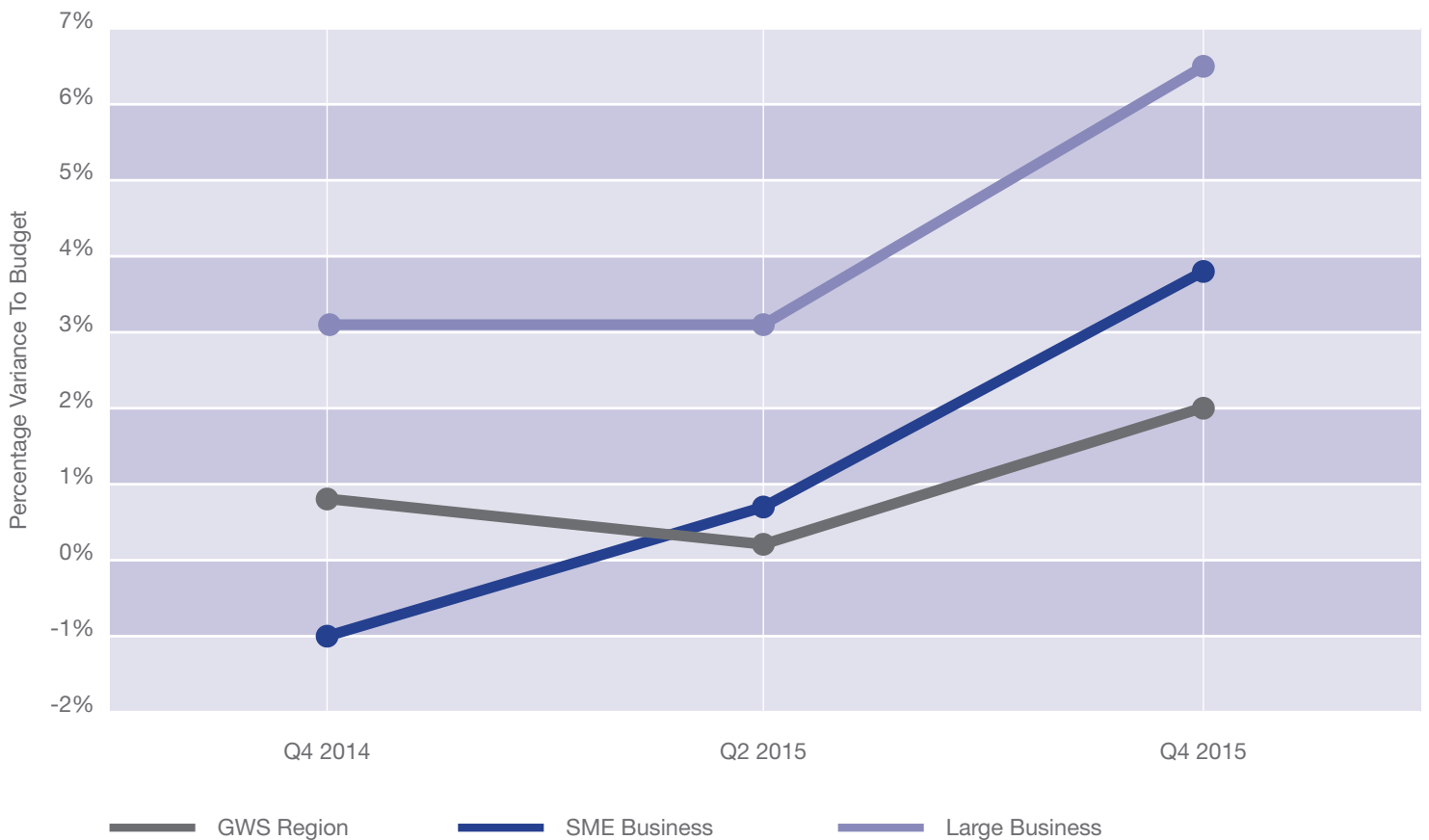
The graph shows the extent by which businesses are forecasting that their profit for the coming 6 months will exceed their budgeted profit for that period. As for revenue forecasts, Large businesses and SME businesses continue to be positive in their expectations on forecast profit, and are marginally ahead of the expectations of the broader Greater Western Sydney Region.



Economic Performance

Capital expenditure

The graph shows the extent by which businesses are forecasting that their capital expenditure for the coming 6 months will exceed their budgeted capital expenditure for that period. Large businesses and SME businesses are expecting to increase capital expenditure marginally ahead of the expected rate of increase for the broader Greater Western Sydney Region.



Business Sentiment

Q4 2015

18.18
Positive

Q2 2015

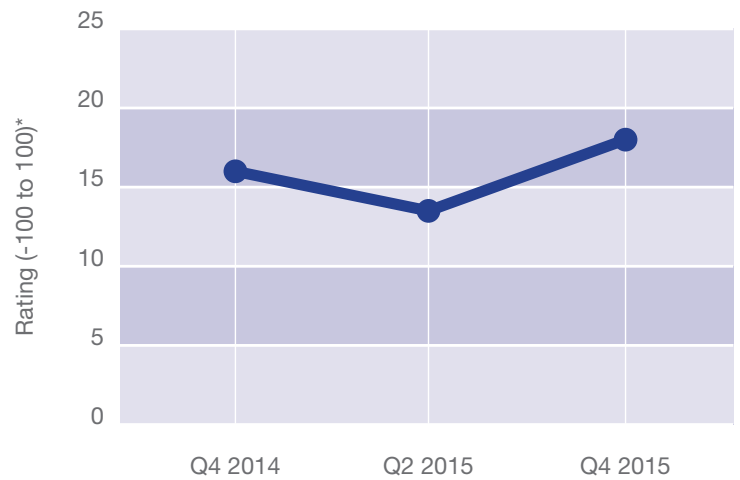
13.49
Positive

Q4 2014

15.83
Positive

Profit

Business sentiment in Western Sydney is notably positive and broadly consistent with the position in the prior surveys.



*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

The overall business sentiment for the region has improved relative to prior surveys. Looking at the different segments by size, Large business remains the most positive, with a material increase in business sentiment apparent for SME business segment. However, a deterioration in business sentiment was identified for Micro businesses and Sole traders.

The maintenance of a positive business sentiment over 2015 is particularly notable given the broader pressures on the Australian and global economies, and is indicative of an underlying strength in the Greater Western Sydney economy.

In line with the overall positive business sentiment, businesses across the region expect to exceed their revenue and profit targets, and maintain their capital expenditure over the coming six months.

The SME business segment are positive in their forecast financial performance, a turnaround from the deterioration in forecast profits shown in the previous survey. Large business continue to forecast above budget revenue and profits, although at a slightly lower level than the last survey. However, they are still ahead of the overall average for the region – continuing their profile as the most positive commercial segment.

By way of comparison on an Australia-wide basis, the Westpac – Melbourne Institute Small Business Index¹ actually fell by 9.2% in the November 2015 report, reversing the strong post-budget rebound seen in the previous report. The index indicated that small businesses in Australia remain positive, but with a decline in expectations regarding future performance.

In the same report, for small businesses based in NSW, conditions were stronger than the Australia-wide position, but a decline was still evident. The NSW results correlate more closely to our research around revenue and profit forecasts for businesses in Greater Western Sydney. However, Western Sydney businesses still appear to have a more positive sentiment overall, and in both the Large business and SME business segments, than overall businesses across NSW.

A deeper analysis of the results indicates that the Micro business and Sole Trader segments have the weakest business sentiment (close to neutral) with limited expectations of higher revenues in the coming 12 months, although profits are expected to be maintained or improved relative to budget.

Capex is expected to be maintained/marginally increased over the coming six months, with the biggest increase relative to budget apparent in the Large business segment.

Nearly 50% of Large businesses and SME businesses expect to increase their capital expenditure over 2016 and two thirds of these businesses expect their profits to exceed budget. Both are positive indicators of continuing strength in the Greater Western Sydney economy.

Business Growth

90%

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

9%

The average expected level of growth for the coming 12 months (compared to 8.6% reported in the previous survey).

Impediments to growth

Employment related factors are the biggest impediments to growth identified by businesses in Western Sydney, comprising the top three factors for businesses generally and the top three factors for SME businesses. The biggest issues impeding growth are:

- Cost of labour
- Payroll tax and employment costs
- Inability to attract sufficient staff with the required skills

These types of issues are consistently identified by businesses as impediments. There are numerous contributors to these, but equally there are numerous ways to approach finding a solution. Government policies on employment related matters are one key part to this. Business collaboration with educational institutions is another.

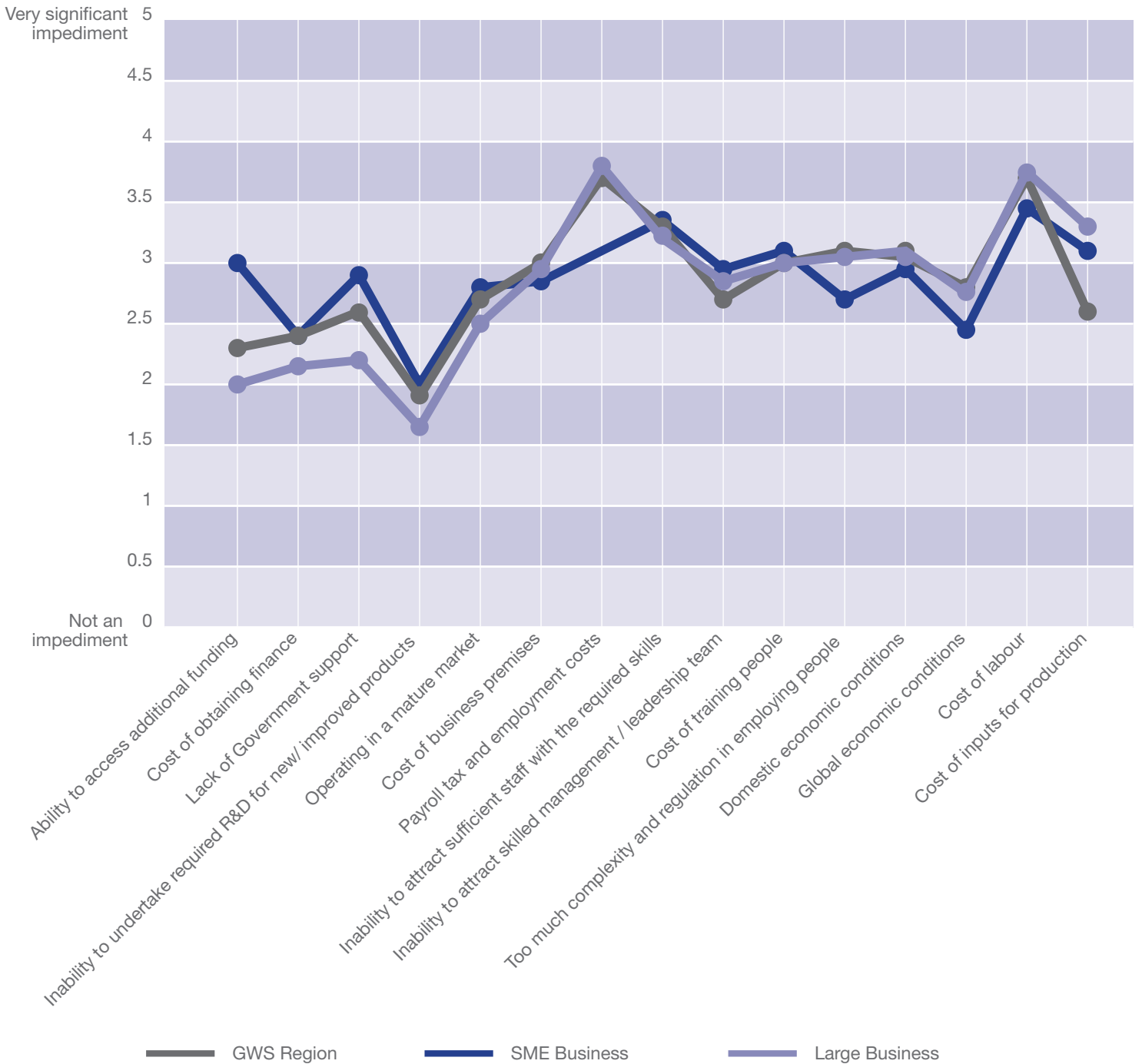
As would be expected, domestic economic conditions are seen as a major impediment to growth. However, despite the overall economic conditions, it is notable that businesses in Greater Western Sydney are maintaining a positive outlook.

Complexity and regulation was another issue in the top five impediments to business growth. This is regularly identified by Government as a key priority area, but it would appear that there is still significant room for improvement.

On the other side, the ability to access finance and the cost of funding were rated low on the list of impediments to growth. A positive result of the current record low interest rate environment is the availability and cost of debt finance, which – if used wisely – should be facilitating the implementation of growth strategies by numerous business across the region.

A lack of R&D capacity was also not perceived as an impediment to businesses, suggesting that businesses in the region have adequate R&D capacity to develop the new products / services that they are seeking to take to the market. It is noted, however, that in the last survey businesses in the region were overwhelming looking to rely on existing products and services in their growth strategy, rather than the development of new products and services.

Business Growth



Employment Trends

30%

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

As a region, employment intentions are slightly positive with an overall improvement from the last survey (Q2 2015). The vast majority of businesses are expecting to maintain or increase their workforce in all its forms – full time, part time, casual and contractors.

This position is consistent with the positive outlook for economic activity in the region. It is particularly positive in the context of Australian unemployment, which are expected to remain at current levels² and the Australia wide employment outlook which is neutral³, suggesting that the Greater Western Sydney economy is performing ahead of the broader economy.

The upturn in employment intention for Large businesses and SME businesses is indicative of a move to implement the growth plans that have been apparent in these segments over 2015.

60%

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

In Q4 2015, 90% of these business plan to grow their business over the coming 12 months, up from 71% in Q2 2015. The increase in forecast capital expenditure is also indicative of the implementation of growth strategies, which suggests a longer term strength in the Greater Western Sydney economy.




Only 10% of businesses in the region expect to decrease their workforce over the next 12 months. Price pressures from customers and competition from low cost of employment countries 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.

Businesses in Greater Western Sydney are expecting to create another 25,000 jobs (approx.) in the next 6 months.

Employment Trends

Increase / decrease in workforce

	 GWS Region Q4 2015	 SME Business Q4 2015	 Large Business Q4 2015
Full Time	1.96% Q2 2015 1.9% Q4 2014 -0.05%	2.29% Q2 2015 1.6% Q4 2014 1.65%	6% Q2 2015 3.3% Q4 2014 4.15%
Part Time	1.35% Q2 2015 0.2% Q4 2014 -1.2%	1.71% Q2 2015 0.3% Q4 2014 -0.10%	2.5% Q2 2015 0.7% Q4 2014 -1.2%
Casuals	3.65% Q2 2015 -0.3% Q4 2014 0.6%	1.29% Q2 2015 0.4% Q4 2014 -0.3%	5% Q2 2015 0% Q4 2014 -0.6%
Contractors	1.76% Q2 2015 0.3% Q4 2014 -0.6%	0.57% Q2 2015 0.4% Q4 2014 1.9%	2.5% Q2 2015 -0.3% Q4 2014 0.6%
Employment Intent	Slightly positive	Slightly positive	Slightly positive

Training Support

22%

The percentage of businesses that believe University graduates are not job ready.

11%

The percentage of businesses that believe VET (including TAFE) graduates are not job ready.

Training and development of the workforce is a consistent priority and challenge identified by businesses in Western Sydney.

Graduates – be they from University, TAFE or elsewhere – are a key part of employment growth and an area where many businesses focus a large part of their recruitment strategy.

The idea and desirability of ‘job ready’ graduates is not new, but has gained increased prominence in recent years, in particular due to an increased demand for problem solving, forwarding thinking and innovative skills. Regardless of industry, employers and educators recognise the value of a graduate who can “think” as well as “do”, of “practical” skills as well as “theoretical” knowledge.

In this current survey we took the pulse of businesses’ perception of the job readiness of graduates. The results are sobering, but give cause for optimism.

22% of businesses believe that University graduates are not job ready. 11% of businesses believe that VET (including TAFE) graduates are not job ready.

68% of businesses believe that University graduates are somewhat job ready. 67% of businesses believe that VET (including TAFE) graduates are somewhat job ready.

The results show that the vast majority of businesses do not believe that graduates are job ready. This is problematic, but – realistically – confirms an issue that was already widely known.

Last year, Universities Australia, Australian Chamber of Commerce and Industry, Australian Industry Group, the Business Council of Australia and the Australian Collaborative Education Network collaborated to develop Australia’s first ever National Work Integrated Learning Strategy.

Work Integrated Learning (WIL) is about integrating theory with practical work experience in education to produce job ready graduates. While WIL is well established in many areas, like health and teaching, it is under-used in many emerging industries – where jobs and future demand may be greatest.

WIL includes activities such as work placements, internships, shadowing programs and practical projects.

Training Support

Positively, 67% of businesses see greater industry collaboration with educators as very important or critically important. By engaging and partnering with educators, businesses can help bridge the gap between the academic and corporate worlds. By better understanding each others' needs and capabilities, each can contribute to producing better, more job-ready graduates, which should in turn deliver improved economic outcomes for businesses and the region.

An example of what Western Sydney University is doing:

One of the major things we have done for 2016 has been to replace our existing Bachelor of Business and Commerce with a new Bachelor of Business aimed at helping students to be more "employable". Knowing that the future of business is changing our new degree is based on the fact that by the time our students graduate, new technology, new business processes and new channels of physical and digital distribution will have been created. The future will follow several different directions because, right now, we know many of them don't even exist. The new Bachelor of Business at Western Sydney is designed specifically to prepare students to thrive in the face of change. Students are taught to navigate change and adapt, to think differently and be creative as an employee or an entrepreneur. We do this because we know business employers seek evidence of agile, flexible and creative thinking. This new degree includes more "hands-on" business units dealing with real-life business problems and challenges.

An example of what TAFE is doing:

TAFE Western Sydney is leading the way in Vocational Training in Greater Western Sydney. We are focused on helping organisations deliver steep change through skills development with a range of customised training approaches. We are assisting clients to map succession planning and leadership development to help achieve both short and long term growth goals, whilst ensuring entry level workers have the skills employers require. We like to think we are helping Greater Western Sydney businesses to achieve greater productivity through training by improving skill sets from the cleaner to the CEO.

From 1 January 2015, the NSW Government changed the vocational education and training system through the Smart and Skilled reforms. These reforms are aimed at better meeting businesses' needs by linking subsidised training to priority industry areas. TAFE can help you through Smart and Skilled subsidised training or through a tailored workforce development strategy. Either way, you get the skilled workers you need to make your business more competitive. If the Skills List is not relevant to your business, TAFE can help you to design and implement a workforce development strategy that underpins your business plan.

67%

The percentage of businesses that see greater industry collaboration with educators as very important or critically important.

Problems and Benefits

The benefits and problems of being a business based in Greater Western Sydney

Because of the size of Greater Western Sydney, The Department of Planning and Infrastructure divides it into three sub-regions:

- West Central and North West: Auburn, Canterbury, Holroyd, Parramatta LGAs
- West: Blacktown: Hawkesbury, Penrith, The Hills LGAs
- South West: Bankstown, Camden, Campbelltown, Fairfield, Liverpool, and Wollondilly LGAs

We asked businesses throughout Greater Western Sydney what they saw as the greatest benefits and impediments to being based in the region.

Whilst there are distinct advantages and challenges specific to Greater Western Sydney, with a reasonable correlation between these identified by each subregion, it is clear that the different subregions have their own unique experiences.

Benefits

The West Central and North West subregion identifies a greater benefit from certain factors, relative to the benefit identified by the other two regions.

Key benefits identified by the West Central and North West subregion are:

- Diverse mix of industries
- Perception of the region
- Information and communication technology infrastructure
- Public transport infrastructure
- Proximity to dominant customers or market leaders

Key benefits identified by the West subregion and the South West subregion are:

- Access to major roads / infrastructure
- Availability of land / business premises / facilities
- Access to skilled labour
- Proximity to home
- Public transport infrastructure

The differences are subtle, but clear. In the West Central and North West Region it is the businesses that have chosen to locate in the region that collectively create some of the major benefits for the region. As quality businesses continue to choose to locate in this region, other quality businesses will follow.

For the West subregion and the South West subregion it is access to the physical infrastructure of the region that is attracting businesses to locate in these areas. Construction of additional infrastructure, facilitating the release of more industrial/commercial land and having policies that encourage development of that land will all attract more quality businesses to move into those regions.

Problems

There is a strong correlation between the problems identified by the West subregion with those identified by the South West subregion.

Key problems identified by the West subregion and the South West subregion are (in order of priority):

- Perception of the region
- Public transport infrastructure
- Extent of Government support
- Information and communication technology infrastructure
- Access to major roads / infrastructure

Problems and Benefits

These problems correlate with those identified by the West Central and North West subregion, but the extent of the problems were generally assessed as less significant.

Key problems identified by the West Central and North West subregion are (in order of priority):

- Perception of the region
- Access to major roads/infrastructure
- Public transport infrastructure
- Extent of Government support
- Access to skilled labour

These lists highlight the size and diversity of Greater Western Sydney and the perils of treating the region as a homogeneous entity.

Within the same subregion, some businesses will identify a factor as a benefit, whilst others identify it as a problem. Public transport infrastructure and access to major roads/infrastructure are two examples. Part of the investment being made into these types of infrastructure is paying dividends for some business, but some areas are still lagging behind which is impacting on businesses located there.

The importance of perception

An interesting finding is the importance of the “perception of the region” and the scope of views on this point.

For businesses in the West Central and North West subregion, the perception of the region was generally seen as beneficial for business, whilst for the other two regions, the perception of the region was seen

as an overall negative factor. Within those responses, however, there was a significant range of opinions, such that perception of the region was both in the top five benefits and the top five problems identified by business in the West Central and North West subregion.

The responses indicated that the perception issues relate to broader social issues rather than business specific factors. This can make it all the more challenging to address, but indicates the importance of a holistic strategy for the region, a theme which has come up in previous Making Western Sydney Greater reports.

The opportunity here is that this is an issue where Councils can take a lead role, and make a tangible difference. Many Councils and other groups across the region appear alive to this issue, for example - Parramatta Council has created a role “Director Marketing and City Identity” to enhance how Parramatta is perceived, and raise its awareness as a “dynamic, diverse and creative City that delivers a program of high quality festivals, major events and street activities.” Other Councils are also acting to create similar change.⁴

Cultural events, festivals, sporting and other major events, street activities and similar are all strategies that are being used by various Councils across the region to create and enhance a positive perception of the region.

It is incumbent on local businesses to support these actions and ultimately these businesses are the major benefactors.

The reality of Western Sydney is often markedly different to the negative perceptions. Communicating and marketing the reality so that these perceptions change is a challenge for businesses as well as Government but will be critical to the longer term success of Greater Western Sydney.

Government Incentives

What is the best way for Government to make businesses aware of incentives that may be available to them? Apart from “family and friends”, our research would show that businesses utilise a wide range of sources to identify available incentives.

The range of sources utilised could also indicate the difficulty in finding the necessary information. For example, funding for skills training was identified in earlier research as one preferred way for Government to

support business in the region. Businesses rated communication of the new funding model for skills training as “somewhat ineffective”. 5% of businesses were positive in their assessment of the way the new funding model had been communicated, 95% were neutral or negative.

Source	All Business	Large and SMEs	Micro Business
Your accountant/financial adviser	Important	Important	Important
Government website search (e.g. Business.gov.au, Austrade, etc.)	Very important	Very important	Important
General internet search	Important	Important	Important
Contacting Government department by phone	Very important	Very important	Very important
Friends / family	Not important	Not important	Not important
Industry peers	Important	Important	Important

Information on the skills training funding can be found at:
<http://www.training.nsw.gov.au/smartandskilled/>

A good place to start to find information on available grants is Grant Finder:
<http://www.business.gov.au/grants-and-assistance/grant-finder/Pages/default.aspx>

What Makes for an Effective Grant?

Some grant programs are very successful, others fail, and many lie in between. There are a myriad of ways in which grant programs are administered, so understanding what attributes will make businesses more or less likely to access a grant is important to designing an effective grant program.

The factors that influence businesses to access or not access a grant are relatively consistent across the different sizes of business.

The two stand out factors that make businesses much more likely to access a grant are:

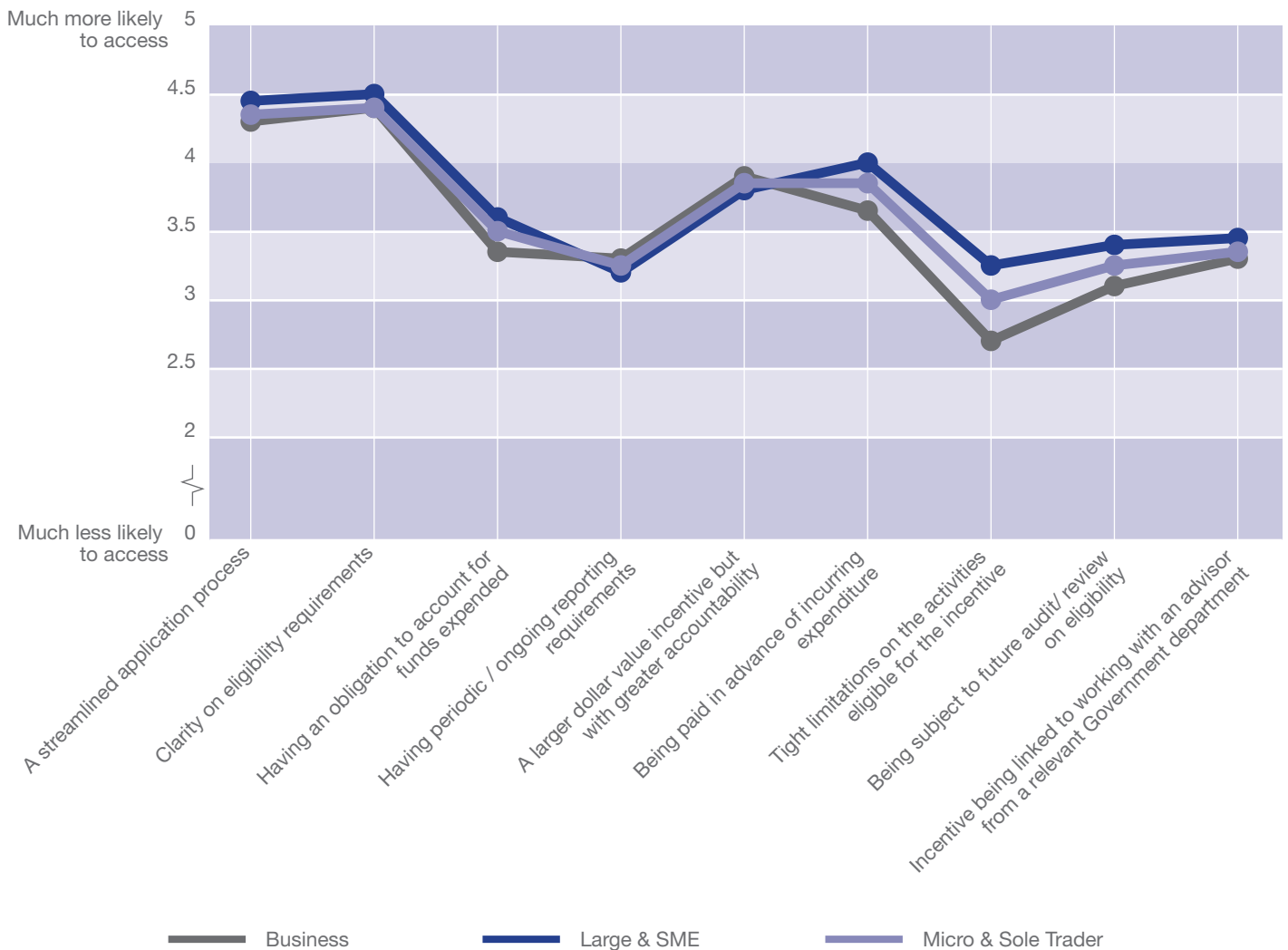
- A streamlined application process; and
- Clarity on eligibility requirements.

In short, the Government need to make it clear for a business to determine if they qualify and then make it easy to apply for the grant.

The size of the grant (larger being preferred) and the timing of payment of the grant (before expenses are incurred rather than after) were two other factors that would make businesses more likely to access a grant.

The accountability measures, interestingly, did not create a disinclination amongst businesses for accessing a grant.

Having periodic / ongoing reporting requirements or having tight limitations on the activities eligible for the grant were the least preferred accountability measures, but even this did not, on an overall basis, create a disinclination for accessing the grant. Accountability, within reason, is accepted as a necessary part of an effective grant system.



International Trade

46%

The percentage of Greater Western Sydney businesses participating in international trade.

34%

The percentage of Greater Western Sydney businesses expecting to increase their international trade in the next 12 months.

Consistent with the previous survey, around half of businesses in Greater Western Sydney participate in international trade, however, less than one third of these businesses are expecting to increase the extent of their international trade in the coming 12 months.

Most businesses expect that their current levels of international trade will be maintained, with around 15% expecting to decrease their level of international trade.

Expectations around future exports of goods and services is marginally higher than expectations around future imports of goods and services, perhaps reflecting the depreciation of the Australian dollar.

Trade is centred around traditional English speaking markets of the USA and New Zealand, as well as two major markets in our region of China and South East Asia. The key trading partners for businesses in Western Sydney are consistent with those of the broader Australian economy.

China remains a key trading partner. Half of the Large businesses and SME businesses with international trade are trading with, or looking to trade with, China.

Whilst only 7% of businesses are trading with India, 19% are looking at opportunities to trade with India over the coming 12 months, showing the emerging importance of India as a trading partner.

Cost is the biggest impediment to Western Sydney business expanding internationally. An analysis of responses suggests that respondents

The larger the business, the greater the propensity for international trade. 57% of Large and Medium businesses trade internationally, compared to only 28% of Small and Micro businesses.

International Trade

identified “cost” as the overall impact on production / service costs, and the resulting decrease in profit margins, that can come with international trade.

Cultural barriers, increased business risk and foreign legal and regulatory requirements were the other notable impediments to international expansion identified by Western Sydney businesses.

At the other end of the spectrum, half of business did not consider a lack of tools for managing financial risk as an impediment to expanding internationally, suggesting that most businesses believe they have the capacity to manage such risks.

Whilst tax implications were important, on a relative basis these ranked low on the list of impediments facing businesses. This is interesting given the prominence of the debate on the impact of tax on business innovation and growth.

Additionally, for two thirds of businesses, transport and logistics infrastructure in Western Sydney was not seen as a significant impediment to international expansion. However, in the previous Making Western Sydney Greater survey, a distinct preference for growth by increasing sales into the Australian market rather than the International market was reported by businesses in the region. A significant portion of businesses had also identified access to major roads and infrastructure as a key problem for businesses located in Western Sydney. In formulating strategies for future transport and logistics infrastructure, perhaps more focus should be on facilitating domestic trade rather than international trade.

Finally, a lack of Government support was not identified as a significant impediment to businesses expanding internationally. To some extent this would suggest that the existing Government support in this area is working well. There is also an element of independence, as the significance of this as an impediment increased as the size of the business decrease (with larger businesses experiencing this as a smaller impediment, due to them having greater resources to draw upon).

A useful first stop for understanding available Government support for export is <http://www.austrade.gov.au/>



Business Population

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



Small (4-19 employees)*

- 8.7% of businesses
- Approx 11,300 businesses

80%

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

- This report is based on a survey of over 200 businesses based in Western Sydney that was conducted in December 2015.
- 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

¹ Business Outlook

Westpac-Melbourne Institute Small Business Index November 2015

² Employment Trends

RBA May 2015 Economic Forecast

³ Employment Trends

NAB December 2015 Business Survey

⁴ Problems and Benefits

Parramatta City Council Corporate Plan – July 2015



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