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'Why Victoria has a bright future'

(Check against delivery)

Good afternoon.

Thank you Kip.

And I'm grateful to AmCham for the opportunity to speak at today's business briefing.

It is my pleasure to share my thoughts with you about the state of Victoria.

Something I am passionate about.

I was born here and I grew up here. I was educated here and have a family here. Like all Victorians, and I suspect like many of us here this afternoon, I have a personal stake in a bright future for our state!

As Chief Executive of Bank of Melbourne, I also have a vested interest in the prosperity of Victoria: of its people, of businesses large and small, and its communities.

Last Friday marked Bank of Melbourne's 3rd anniversary. Since our return to Victoria 3 years ago, I'm pleased to say that we've enjoyed significant growth and success:

- We've opened branches all over Melbourne and regional Victoria
 - Our 89th branch opens in Footscray next week
- We've created more jobs for Victorians: over 1000 at last count
- And we've grown our share of the market
- Which means we're helping about 400,000 Victorians with their banking needs

It's only natural that I'm concerned about the prosperity of Victoria: Bank of Melbourne's future growth and success is inextricably linked to the broader prosperity of our state.

Talking to our customers and staff every day, I see a desire and enthusiasm for Melbourne and Victoria to succeed. I can feel some of that same energy here in this room, this afternoon.

I'd like to talk to you today about why Victoria is in the box seat as a globally competitive services economy and share some thoughts on how we can secure this future.

Let me start with a reality check, of where I see Victoria's economy and some of the challenges we need to stare into.

It seems there's a lot of conflicting noise out there about how we're travelling as a state.

I know in my business, I'm seeing the green shoots of optimism. I'm seeing strong growth in small business lending and lending to households for homes, personal loans and credit cards.

This tells me people are somewhat comfortable with the outlook for the economy and are willing to borrow to invest for the future - which of course has a flow-on effect to the broader economy.

But I recognise that we also face challenges. There are of course businesses, families and communities doing it tough. We all know that traditional manufacturing is in decline; we've seen the headlines about Toyota, Ford and Holden.

It's inevitable that major shifts in the economy like this cause growing pains. I don't want to gloss over the very real impact this has for many Victorian businesses and families.

But we need to accept that our economy is in transition. The numbers are telling us that we're tilting away from traditional manufacturing and towards a knowledge-based services economy.

For example, over the past decade, Victoria has lost more than 50,000 manufacturing jobs but over the same period, we've created an additional quarter of a million jobs in health, education and professional services.

At the same time, there are bright spots emerging in advanced manufacturing. Victoria is leading the world in additive manufacturing for titanium and carbon. This area is set for a great deal of time in the sun as 3D printing revolutionises many sectors in many ways - ways we don't yet fully understand, and fast.

Another example is food production. It's grown 65% over the last 20 years, and is now our biggest manufacturing employer. Metals and wood manufacturing have also seen remarkable growth. A strong focus on R&D and scientific innovation - with local and international collaborators - will increase our productivity in agriculture.

One of the research projects underway by the Victorian government will help grain producers minimise crop loss from extreme weather conditions. Initiatives like these are at the intersection of industry and innovation - a demonstration of how Victoria is leading the way.

These examples show that manufacturing will continue to play an important role in Victoria's economy just not manufacturing as we know it. It will be innovative and adaptive manufacturing that will become the norm as our economy enters its next phase.

I promise that I'll get to the positives soon! But we can't have a true discussion about Victoria's future without mentioning that other pain point - infrastructure.

You need only look at the papers to see that Victoria's popularity as a great place to live and work is alive and well.

Just last week, I read that Melbourne was nominated as the city with the best quality of life by ultra high net worth individuals. These are people who could live almost anywhere in the world - but choose Melbourne. We're being dubbed the "New York of Australia". Hugh Laurie (one of my favourite actors and the star of *House* and *Black Adder*) put it nicely, tweeting on a recent visit: "Bloody hell Melbourne is lovely. Why was I not informed?"

We see in the net migration figures that people are flocking here. Yes, even from Sydney! Melbourne, as we know, is the world's most liveable city.

And partly because of that, it's also shaping up to become the largest capital city in the country by 2025 - a city of 5 million people. The forecasters are telling us that we'll need to accommodate 7 or 8 million people by 2050.

A bigger Melbourne and bigger Victoria make the need for the right infrastructure even more pressing. How do we move a growing number of people to and from work across the city and throughout regional Victoria? How do we build the schools, the hospitals, the childcare centres, to educate and care for a rapidly growing and ageing population? What about houses and jobs for all these people?

These challenges aren't abstract or conceptual. They are playing out all over Victoria, right now. Melbourne's West is a case in point.

To set the scene for you, the West has a population of about 750,000 people. It will likely grow to 1.2 million people by 2031.

And in about a decade, Western Melbourne will have a bigger population than even Western Sydney and will likely need its own CBD.

Of course, the rapid growth in pockets such as the West presents a massive investment opportunity and economic stimulus for that region as well. The region is an opportunity that we've already tapped into at Bank of Melbourne.

We are putting our money where our mouth is and investing in this growth corridor.

About a third of our investment this year will flow to the Western catchment. We're already building more branches and business centres and hiring more locals to help our customers.

I challenge other businesses to do the same.

Yes, the West needs banking services. When we look at the growth forecasts for the region, this area is going to need more. A population of 1.2 million people will need something like:

- 150 primary schools
- 40 shopping centres
- and 420,000 homes

Let's not forget the health and aged care services and public transport. We need to build sustainable communities by building the right infrastructure and services in these local communities.

Consider also a pocket in Melbourne's West, only a few kilometres from here: the City of Maribyrnong. Of the people who work in Maribyrnong, about 9% commute there by public transport but almost 70% get to work by car.

Looking at Victoria's employment picture, only 1 in 8 workers commute into the city, the rest work in non-CBD employment hubs. That tells me that the implications of the growth in suburban employment centres are far-reaching. I'll call it the 'Maribyrnong effect' and it's being mirrored all over Victoria.

It means that we need roads, public transport infrastructure, and services. We need to take a closer look at our hub and spoke public transport model. We need to get the infrastructure we have to work harder for us, and build the right mix for the future. And we need to do it now.

As we saw from the State and Federal budgets, infrastructure projects are front and centre of the government's growth agenda. These projects will help move people and freight across our growing city and state.

The East-West road link, improvements in our rail network and the Port of Hastings development are also a lever for jobs. They stimulate our economy, improve productivity, and boost industry and consumer confidence.

But more than that, they will enhance and protect the liveability of this great city, and help us attract the very best global talent and the head offices of global organisations to Melbourne.

We're not going to solve our infrastructure challenges and the other implications of a rapidly growing population over lunch. So let me leave it there.

I said earlier that I'd get to the positives and there are many! There's no doubt that Victoria is very well-positioned to embrace growth opportunities. How do we make the most of these opportunities - and how do we secure a bright future?

In my role as Chairman of the Committee for Melbourne I'm lucky to work with our CEO Kate Roffey - who is here today - and a bunch of passionate people who care deeply about the future of our city and our state. The Committee has more than 100 members from across industry, our universities, and not-for-profits.

We share a clear agenda: an agenda to make sure Melbourne is one of the very best places to live and raise a family and to work and do business. The most liveable city on the planet, as well as one of the most commercially competitive and productive.

At the Committee for Melbourne, we're going through the process of answering those critical questions right now. We're identifying the growth sectors of the future, for Melbourne and Victoria.

The detailed analysis will be released in the coming months, but today I'd like to briefly touch on those sectors where I see our future potential - where this state can punch above its weight.

Let me say upfront, that our natural advantages put us in a strong position as we enter the Asian Century:

- We sit on the doorstep of Asia. The region, and beyond, is easily accessible with our 2 curfew-free airports.
- We already have Australia's busiest container port. We will continue to lead in shipping as the natural deep-water Port of Hastings comes online.
- And our multicultural heritage gives us a uniquely global perspective. Two-thirds of our state's population is first or second-generation migrants. Victoria is home to a population comprised of about 140 cultures!

As well as these home ground advantages, there are other things that Melbourne is known for, that pack an economic punch.

For instance, our sports precinct at Melbourne Park with the Australian Open and events at Rod Laver Arena contributes to our state's economy, not only through direct ticketing revenue but it also has a spillover effect on accommodation, transport, restaurants, cafés, and retail spending.

The same can be said for the rest of our major events calendar which is peppered with internationally renowned events like the Melbourne Food and Wine Festival and the Spring Racing Carnival.

Our sporting precinct of Melbourne and Olympic Parks, together with the MCG, is the epicentre of our renowned sporting heritage.

Then there are the industries that are the lifeblood of our economy. Our entire city is characterised by concentrated hubs of activity and exchange. These clusters will be a critical part of Victoria's future growth, and they include:

- Our medical and research precinct in Parkville
- Our education cluster that spans the CBD, Carlton and Monash
- Our arts precinct south of the Yarra
- And of course, Docklands as the heart of the finance cluster

These clusters are making a mark in their own right.

I'll start with financial services, the second biggest sector in the state, accounting for about 15% of Victoria's economic output. Our superannuation industry alone is set to benefit from government-mandated growth. Australia already has the 4th largest superannuation or pension industry globally and one of the most modern. Nationally, super is forecast to rise from an industry of \$1.5 trillion in Funds Under Management to \$6 trillion over the next 20 years. This is a booming industry, and the skills we boast in this sector can be exported around the world.

Victoria is in a prime position to make the most of this opportunity. We are home to 7 of the top 14 Australian super funds, and 60% of the top 300.

From financial services, let me take you to medical research, where our reputation is internationally recognised. It's no accident that Melbourne was chosen to host the 20th International AIDS Conference just last week.

We have 4 of the largest independent medical research institutes in Australia, and lead the way in attracting around \$1 billion in research-related income annually. We're also home to one of the world's top bio-tech clusters, generating \$1 billion of export revenue each year.

This is a success story. But I'd argue that even more can be done to put ourselves on the map as a destination with world-class medical services. Hi-tech healthcare is emerging as a major draw card: in robotic surgery, IVF treatment and cancer care. Looking ahead a decade, medical tourism could rival the success we're having in higher education.

Education is, of course, our state's biggest single export, worth \$4.5 billion a year. After reaching a peak in 2009, education has started to pick up again - there is real opportunity to further leverage this.

The same could be said for Victoria's food and fibre industry. In 2012-13, Victoria exported \$9.4 billion of food and fibre - which was about a quarter of Australia's food exports. With a consumer class that's set to reach 3 billion people by 2050 in Asia alone, the export opportunity for agriculture is enormous and imminent. China is already our top market for food and fibre exports.

And we're also making inroads by exporting accounting, architecture and urban planning, management consulting, engineering and legal services.

So the stage is set, and Victoria is in the box seat as a globally competitive services economy. But more can be done.

I said at the outset that Melbourne rightly holds the mantle as the world's most liveable city. But can that liveability translate into economic value? Could it also be a source of Victoria's growth and prosperity and set us up for the next generation and beyond?

I believe it can.

I propose that our liveability is in fact at the very core of our state's future competitiveness.

It already means we can more easily attract global talent here. Although we should be doing more to attract global head offices to Melbourne as well. I think we need to make the most of the opportunity that our unique 'brand Melbourne' presents.

Let me explain.

The simple fact that we have been able to sustain our position as the world's most liveable city for the last 3 years - firstly is an asset, and secondly suggests that we have done a good job of solving many of the problems of a modern city.

It's time we took a smarter approach by collaborating across industry and government to seize the export opportunities that are staring us in the face.

That opportunity involves providing solutions to large city problems, problems that are being faced in a great many cities being built to house a growing middle class across Asia and in India. The rapid growth of the middle class and their urbanisation brings with it an increasingly sophisticated set of needs that can't be met domestically.

Let me scratch the surface of the size of this opportunity. China's latest urbanisation plan will move 100 million people from rural areas into mega-cities over the next 6 years.

This means the construction of dozens of new cities from scratch, cities that haven't developed organically involving problems that they either haven't confronted before or are looking for the best solution to.

That's important because they often lack a whole ecosystem of services that every community needs. It includes that web of schools, hospitals, shopping centres, transport infrastructure, everything that make a city work.

Let me illustrate with one example.

Our government often receives delegations from overseas. Remembering that the distinction between government and industry is often narrower for our northern neighbors than it is for us, one recent delegation asked the question: "What constitutes good infection control?"

This is a far-reaching question. It is a question that transcends both the public and the private sector and then industry boundaries in the private sector. It is a question that we aren't well organised to respond to.

How many of these types of issues will need to be solved in the next 50 years of rapid growth that is occurring? We take for granted the very many systems or holistic solutions to big city problems that we enjoy here in Melbourne.

It starts with the regulatory, policy and institutional frameworks that underpin our many systems. This is a public sector capability. There is a market for these frameworks. If we exported these frameworks, we would then potentially create systems that look like ours.

Similar standards and practices facilitate exchange. It would make it easier for our businesses to understand, comply with, and export into these markets. In addition, it would facilitate things such as expert exchange and capital flows. For example, in the case of health, patient and clinician exchange.

This opportunity also involves greater collaboration, across and within industry sectors to bring these city wide holistic solutions to market. Some of this collaboration has happened organically in the past with such things as sustainable urban design. Some is happening organically on the back of our super trade missions. Organisations such as ACCI (Australian Chamber of Commerce and Industry) and AIG (Australian Industry Group) aren't really set up for this. Neither is my own – the Committee for Melbourne.

A more collaborative and ambitious response is needed between government and industry. A 'Melbourne Inc', if you like, to sort through the many opportunities and to orchestrate our response. Done the right way, this has the potential to create jobs and

economic prosperity for Victoria and Melbourne and help secure our future in this, the Asian Century.

So, in painting a picture of where Victoria is positioned now and the enormous potential that's in front of us, I hope you agree that the future for our state is bright.

While we don't have all the answers yet, my checklist looks something like this:

1. First and foremost, it's solving our infrastructure challenges: as our population grows, there's an urgent need to get the critical projects right to improve liveability and to raise productivity and competitiveness. That means getting what we've already got to work harder for us, and being smart about building for the future.
2. At the same time, we need to make greater inroads to leverage our intellectual firepower across our industry clusters and to get better at exporting our services. In particular, this means strengthening the relationship between industry and our research organisations such as universities, and getting better at bringing these ideas to market.
3. Finally, it's about better organising ourselves to sell the modern city-wide holistic solutions that our northern neighbors need, that help make Melbourne the most liveable city on the planet.

Let me close by saying that Victoria really is the state of opportunity. It's home to one of the world's greatest cities and thriving regions. We boast internationally recognised industries. We have a strong and growing services sector with exciting export potential.

At Bank of Melbourne, we're making an active contribution by helping our customers make the most of the opportunities ahead. It inspires me to see a young family buying their first home, or a business buying new equipment, building a new distribution centre, or growing through acquisition. We're helping this happen, every day.

And at the Committee for Melbourne, we're doing our part to make sure that Melbourne gets even better as it gets bigger.

I said at the outset that Victoria is a very personal subject. We need a vision that transcends political and economic cycles, a vision that cuts through the clutter, that is based on the facts of where we are now and leverages our strengths. It requires a truly big picture view that connects the dots between the challenges we face and the opportunities ahead.

Thank you.