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WINTER 2015

Investing in quality infrastructure **has never been more important**

By Daniel Byrne
Melbourne

It has been widely reported that the Abbott Government handed down its second Budget in challenging political circumstances.

Most economists and business groups agree that current economic conditions are tepid, with weak economic growth, rising unemployment and national income going sideways. Consumer confidence is low and many businesses are holding off on major new investments.

All this despite interest rates at record lows.

At the same time, most economists and Budget watchers agree that Australia faces a medium to long term fiscal challenge, with a growing disconnect between revenue and spending commitments.

Our economic conditions call for a Budget that stimulates the economy in the short term while at the same time making tough decisions that will cut structural deficits in the long term.

But how can the Budget achieve these seemingly contradictory goals?

The answer is investing in high quality infrastructure.

As former Chairman of the US Federal Reserve Ben Bernanke recently wrote in his new blog, "a well-structured program of public infrastructure development [...] would support growth in the near term by creating jobs and in the longer term by making our economy more productive."

History shows that strong economic growth is the surest way to balance budgets and reduce Government debt.

Last month's Budget reaffirmed the federal Government's commitment to its $50 billion infrastructure package announced in 2014's Budget. This package has a clear focus on improving Australia's key transport networks.

But disappointingly, there were no new major transport funding announcements in this year's Budget.

Infrastructure watchers had also hoped for a boost to last year's Asset Recycling Initiative, which is already helping State Governments to unlock their assets and invest in vital new infrastructure.

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Investing in quality infrastructure has never been more important

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INFRASTRUCTURE

The Andrews Government confirmed in the Victorian Budget that it will sell the Port of Melbourne and capitalise on the Asset Recycling Initiative to support its historical investments in Victoria's public transport network.

While we cannot predict the next big technology or innovation, we can be sure that connecting businesses with customers and workers – physically and virtually – will be vital to unlocking the productivity necessary to drive Australia's long term success.

Improved transport networks helps improve productivity now by reducing the cost of doing business, increasing competition and allowing greater specialisation by businesses and workers.

Increased competition and opportunities to trade also improves productivity into the future by promoting innovation.

Increasing productivity growth by even one fifth of a percentage point will increase the Australian economy by around $10,000 per person (in today's dollars) by 2055.

This would also boost Government revenues and reduce Government spending as a share of GDP, helping to address the long term fiscal challenge.

That's what we at Pitcher Partners call a win–win!

An unremarkable Federal Budget

TAX MATTERS

By Mark Harrison
Melbourne

Within the context of the current political, economic and fiscal environment, the Budget handed down in May is unremarkable and safe.

The 2015 Budget has placed the growth prospects for the economy onto the shoulders of small business. This sector is the beneficiary of tax cuts, concessions and stimulus for new activity. However, the tax cut threshold of $2m is too low and needs to be raised to offer benefits for more businesses in this sector and increase economic impact.

Without active budgetary policy, the balance of the economy will continue to rely on low interest rates, a lower exchange rate to support exporting and stable pricing. For many of our SME clients, the missing link will continue to be consumer confidence, although the post Budget bounce back is a positive sign.

At Pitcher Partners, we believe that the middle market is the real engine room of the Australian economy. The 2015 Budget will have a neutral impact on businesses in this market.

The government is also pursuing a raft of integrity measures to improve its treasury position.

These integrity measures are largely focused on businesses outside of the Australian tax system. They seek to adopt measures that many of our major trading partners have or will adopt. The implementation of these changes will require a delicate balance to not damage the level of inbound investment and Australia's international competitiveness.

Given the lack of material business reform in the Budget, the challenge still remains to address structural difficulties in the economy. The Budget places even greater pressure on the Tax White Paper delivering the required impetus for economic growth over the medium to longer term.

Pitcher Partners has published a full analysis of the Budget on our website. Please visit www.pitcher.com.au to read our insights.

Understanding Australia's *International Trade Agreements*

GLOBAL MARKETS

By Rohini Kappadath
Melbourne

Australia's prosperity is more connected than ever to developments in the global economy. Our trade with the world is equivalent to 42% of our GDP – a number that has not dropped below 25% since 1900.

The stock of foreign investment in Australia is at record highs of A$2.8 trillion, while Australia's investments around the world total A$2.0 trillion (2014).

Sustaining our performance as the world's 12th largest economy, with the fifth highest GDP per capita will require strong international engagement.

This was further emphasised by the Treasurer Joe Hockey in the 2015 Federal Budget, which announced government intention to assist businesses in taking advantage of the growing services export opportunities in Asia, in higher education, tourism, health care and financial services. Australian-based businesses exporting home grown skills – from advanced manufacturing to services – are seen as the big new drivers of wealth creation and job creation over the next decade. The Budget commits an investment in new trade agreements with China, Korea, Japan and India.

As stated by Deputy Prime Minister Julie Bishop, "If the goal of traditional diplomacy is peace, then the goal of economic diplomacy is prosperity". Economic diplomacy uses our international diplomatic assets to advance the movement of Australian goods and services into international markets. Trade liberalisation through free trade agreements is therefore central to the government's agenda to support Australian businesses and boost economic growth.

Trade Agreements currently contribute to 42% of Australia's international trade and two way trade in goods and services was worth nearly $670 billion in 2013-14.

Free Trade Agreements with China and South Korea, and the Economic Partnership Agreement with Japan, signed in 2014, are indicative of a strategic push to enable greater access and increase the global competitiveness of Australian goods and services providers.

To access these international market opportunities, SMEs must ingrain their export and international engagement plan into their business strategy, rather than have it positioned as an optional bolt on. Understanding the specific way in which a Free Trade Agreement impacts a particular business transaction is key to achieving a positive impact on the bottom line.

To succeed in foreign markets, Australian service providers must look for their niche, deepen their understanding of the competitive landscape, develop internationally capable leaders and position their A team on the ground. If this seems too onerous an investment for an individual SME, collaborating with industry peers, academia and government can help create more innovative and sustainable models for international engagement.

Australia currently has the following trade agreements in force:

1. ASEAN – Australia – New Zealand FTA
2. Australia – Chile FTA
3. Australia – New Zealand Closer Economic Relations
4. Australia – United States FTA
5. Japan – Australia Economic Partnership Agreement
6. Korea – Australia FTA
7. Malaysia – Australia FTA
8. Singapore – Australia FTA
9. Thailand – Australia FTA
10. Australia – China FTA*

(*Intention to sign agreement concluded, but the FTA has yet to be signed).

It is important to recognise that signing of Free Trade Agreements between countries do not in themselves result in "trouble free trade". All trade agreements are different and need to be looked at separately in the context of specifically identified trade opportunities. Relationships are still the core of successful trade with countries such as China, Japan, Korea and India.

That being established, below are some examples of how businesses can use and benefit from Free Trade Agreements:

1. Increasing goods exports to a market due to preferential treatment, quota expansion or simplified customs procedures in partner countries.
2. Commencing new goods exports to a market due to newly introduced incentives such as lower tariffs or increased attractiveness of Australian goods to new importers.
3. Achieving efficiencies through cheaper imported or better quality and technologically advanced inputs due to Australian commitment to eliminate tariffs.
4. Harnessing new or more secure access to services markets with the help of liberalising market access and reduced regulatory barriers in different service sectors.

Accessing government support for your international engagement

Pitcher Partners works closely with Department of Foreign Affairs and Trade (DFAT) and Austrade to ensure access to latest insights into international market opportunities, regulatory conditions and skilled in-market expertise across the globe.

Trade Agreements can be complicated documents, with various caveats to ensure they are not disruptive to local industry. In some instances, behind the border measures can act as effective barriers even when trade agreements have negotiated open access. To understand the specific impact trade agreements can have on your business, clients may contact Pitcher Partners for assistance.

The shift to Agile projects *opportunities and realities*

CHANGE MANAGEMENT

By Hugh Kelly
Melbourne

Business systems projects have suffered in recent years from project overruns, cost blowouts and weakening of business confidence. One of the contributing factors that may influence the success rate of a project is the choice of delivery methods. Traditionally, implementation projects follow a 'waterfall' methodology which aims to deliver a solution at the end of the project by following a sequential and phased approach.

Waterfall approaches require considerable upfront planning and estimating to determine total costs, timeframes and requirements before the project can even begin to build the solution. Therefore, once these plans and specifications for the final product are locked in place and the project has commenced, its ability to adapt to business and market changes can be complex and expensive. In these situations, the rising costs and project delays can be such a risk to stakeholders that it may be unpalatable to proceed and request for the project to be terminated, with no benefits being delivered to the business.

To mitigate the shortcomings of Waterfall methodologies and to allow projects to adapt to the continually changing business environment, there has been a recent trend towards Agile project delivery methods. The benefits of Agile are being recognised amongst top executives with as much as 80% of CEOs feeling that Agile is a must for survival for their companies with many using Agile already.

Although Agile has been around in some shape or form since the 1940's, it has recently gained popularity with its ability to deliver (relatively quickly) small pieces of working functionality on an incremental basis, over time providing a complete solution. This iterative approach ensures that businesses realise value earlier and reduces project risk from closer business engagement. Mechanisms are put in place to manage changes to project scope and outcomes to adapt to external influencing factors impacting the business.

Before you embark on the journey of delivering projects via an Agile delivery approach, it is important that you have an understanding of what Agile is and what it is not as there are misconceptions of this delivery method.

What Agile is	What Agile is not
Adaptive project delivery methodology: Agile delivery involves incremental and iterative processes to deliver highest priority functionality sooner.	**A silver bullet or a quick fix solution:** It may be more appropriate to use a more traditional Waterfall delivery approach.
Evolving requirements: Continuously changing requirements are based on business and customer requests and internal and external business factors.	**Easier:** Agile is often difficult and disruptive to an organisation, requiring skilled and motivated teams to be successful.
Team is empowered: Flat hierarchical structure with a cross functional collaborative team that interacts regularly with the Business. As the business is the end user, they need to be continually aware and involved with the project.	**Cheaper and quicker:** Agile projects may not be completed faster however it will deliver highest priority functionality to the business sooner.
Driven by a key philosophy: Deliver early, deliver often... fail early and adapt. This approach allows risks to be identified and mitigated quickly.	**Undisciplined:** The approach is guided by common principals, process and values that ensure that only the essential formal documentation and planning is used.

Despite the benefits Agile provides over more traditional approaches, it may not be suitable for every project and therefore it is essential to understand when an Agile delivery approach may be better suited. The table below may be used for this assessment as a starting point.

When Agile is appropriate	When Agile may **not** be appropriate
Business understands the Agile paradigm and is willing to partner with the project team in the delivery of the solution	Forcing Agile process on an Organisation that does not understand or support the approach
High possibility that the requirements may change during the project lifecycle	A distributed project team that is not co-located with the Business
The project team is comprised of Senior/Experienced members who can self-manage and can estimate work effort well	Mission Critical Projects that must finish by a required date
Time/Materials or Time Boxed Contracts	Fixed Price Contracts
The organisation is prepared to start project without a detailed plan and has suitably skilled and experienced resources to participate collaboratively with the project team	The Business requires the full solution specifications and costs before project can begin

While Agile project delivery approaches can provide your organisation with the ability to adapt and generate benefits early, it will not be suitable for every project. Before considering this method it is imperative you understand your organisation's appetite for this approach otherwise you will not be able to garner the maximum value Agile can provide your business. For support in project delivery, contact Pitcher Partners.

Superannuation data standards **are you prepared?**

SUPERANNUATION

By Ben Brazier
Adelaide

Back in 2012 the Government established a framework to implement changes to employer super contributions as part of the SuperStream reforms. These reforms were designed to improve the efficiency with which money and data flow around the superannuation system. Until now the changes have been mostly focused on larger entities.

By way of a reminder, the changes apply to:

- employers making super contributions for their employees
- superannuation funds receiving employer super contributions

Employer super contributions

Employers will need to:

- pay all super contributions electronically
- transfer information about the contributions to the relevant super funds electronically using an "electronic service address"

Start date

Employers with 20 or more employees have until 30 June 2015 to complete their implementation and employers with less than 20 employees have until 30 June 2016.

All employees, whether full time, part time or casual, are counted in determining which start date applies.

How to comply

There is a long list of information that must be included in the electronic data message to the super fund. The employer will have to ensure that their payroll administrator is able to send such a message to the super fund.

An easy way to comply with the new rules is to use the services of a superannuation clearing house. A superannuation clearing house is a service that will pay multiple super funds from one data file and one payment received from an employer. The clearing house will have the technology to transfer the payment and data in the format required.

The Federal Government operates a free clearing house service for employers with less than 20 employees called the Small Business Superannuation Clearing House. For employers with 20 or more employees, service providers generally operate on a fee for service basis. Popular clearing houses currently operating include QuickSuper and SuperChoice.

Complimentary clearing house services are beginning to be offered by the big banks and some larger super funds to their existing clients. We expect these service offerings will become more common over time.

Self Managed Funds

Self managed superannuation funds that receive employer contributions must be able to receive the electronic payment and data details from employers.

There is an exception where the employer and self managed superannuation fund are related. Where the owners/controllers of the employer are also the members of the self managed superannuation fund the rules do not apply and no action is necessary.

How to comply

A self managed superannuation fund caught by the new rules will need to engage a messaging service provider. At Pitcher Partners we have registered our applicable self managed superannuation fund clients with a messaging service provider. Therefore we will be able to receive electronic data details provided by the employer on behalf of our clients.

Employees with self managed superannuation funds will need to provide their employers with the following information if they have not already done so:

- Super fund's name
- Super fund's ABN
- Super fund's Electronic Service Address
- Super fund's Bank BSB and Account Number

Contact Pitcher Partners for further information and assistance.

ADVOCACY

NFP organisations at risk

of over-reliance on Government assistance

By Sue Dahn and Mark Harrison
Melbourne

In 2014, Pitcher Partners, in conjunction with law firm Russell Kennedy Lawyers, undertook a comprehensive survey of our Not-for-Profit (NFP) clients to draw together insights on topics such as governance, strategy, fundraising, risk management and the use of volunteer and professional resources.

The survey confirms that many NFP organisations rely strongly on Government assistance. We believe there is a need for these organisations to develop alternate means of financing and social enterprise. Organisations need to ensure that they can maintain solvency in the event of a change in policy or funding by setting aside monies for existing commitments, and a fund for short term operations, together with managing their cost base to be flexible enough to respond appropriately to changes in funding streams.

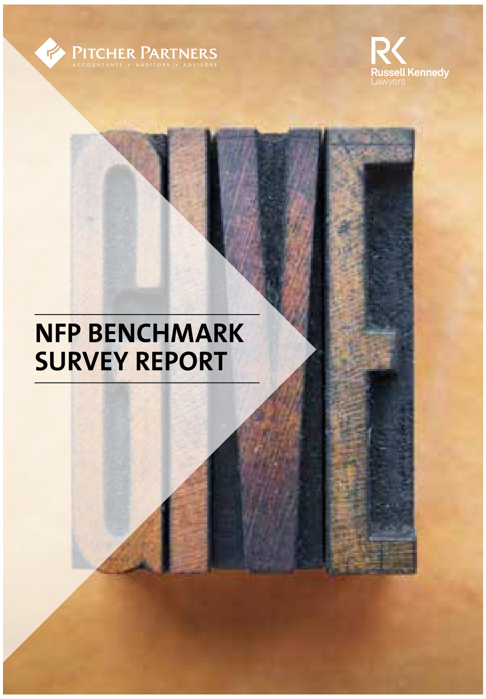
It is also necessary for NFPs to consider the management of various tax status benefits to ensure no compliance issues arise. Recent ACNC and ATO activity evidences a willingness to revoke tax benefits of NFP entities when non-compliance occurs, which is a risk that most NFPs cannot afford to expose themselves to.

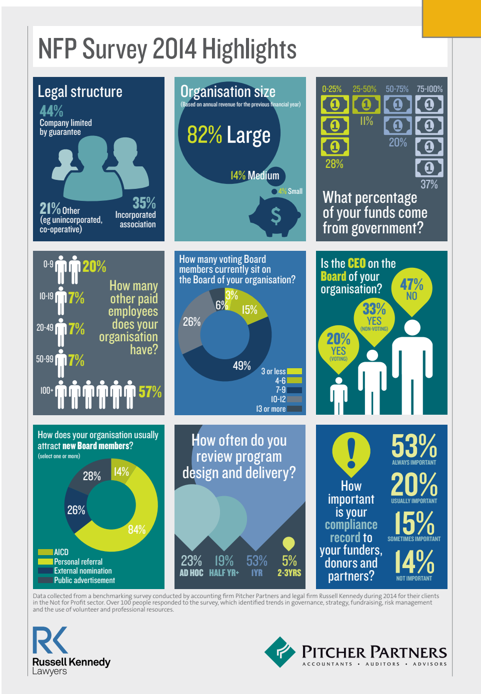
We also identified that there is an opportunity for NFP organisations to move toward more sustainable funding models by adopting commercial funding streams, rather than relying on fund raising as an ancillary source of monies.

Most respondents indicated that there is value to be derived from external regulatory requirements. This supports findings last year that almost 80% of submissions to the Senate Economics Legislation committee inquiry into the possible repeal of the Australian Charities and Not-for-profits Commission (ACNC) do not support the government's plans to repeal the ACNC Act and disband the ACNC.

Pitcher Partners was therefore pleased to see the 2015-16 Federal Budget confirmed that ACNC should continue its work according to current priorities, while the ACNC Act remains in effect.

Download the report
pitcher.com.au





Latitude 37

CLIENT PROFILE

By David Knowles
Melbourne

The slew of home renovation programs featured during television prime-time is testament to the large appetite Australians have for the magic of a house makeover. The rooms are beautifully styled, and with slick camera work and a stirring soundtrack, many a domestic diy-er is tempted to start ripping off wallpaper and pulling up carpet to achieve a new interior.

However, home renovation can be a deceptively risky and expensive exercise that might not quite hit the mark. A complete rebuild may be a better option, and Latitude 37's luxury home design and building expertise has just seen them awarded the winner of the HIA Australian Professional Medium Builder for 2015, after winning the HIA Victorian Professional Medium Builder award in 2014.

Latitude 37 specialises in custom home projects in the East, South East and Bayside suburbs of Melbourne and the Mornington Peninsula. Clients collaborate with Latitude 37's in-house Design team to create a unique, custom home solution that brilliantly combines their own design ideas with Latitude 37's award winning expertise. The team often work with challenging and sloping sites and this has become an area of particular expertise. By partnering with Latitude 37, clients are able to:

- Achieve a bespoke, luxury new home solution, that is both beautiful and functional and appropriate for their site
- Make an informed decision to build based on an all-inclusive, upfront pricing proposal that is within reach and delivered on budget
- Invest in a home that is designed and built to stand the test of time

Now employing a team of around 70 construction professionals, Latitude 37 is a force to be reckoned with, with over 12 industry awards under its collective tool belt.

Latitude 37 was one of the first clients to appoint Pitcher Partners when we opened our new offices in Melbourne's South East in 2013. Since then, we have provided them with the guidance and support needed to grow the business significantly. Looking for the services of a full service accounting firm in order to meet the increasingly complex requirements of the business, Latitude 37 initially engaged Pitcher Partners to deliver a strategic risk assessment workshop and attend to their statutory compliance requirements. The relationship has continued to grow with the appointment of Pitcher Partners to an outsourced CFO role, including the provision of monthly financial reports to the Board.

Latitude 37 has a strong governance mindset and embraces a 'no surprises', rigorous approach to transparency throughout their whole business which is demonstrated by their commitment to a rolling internal audit program. Pitcher Partners' internal audit reporting provides the directors of Latitude 37 with a deep understanding of operations at every level and allows excellent oversight of the whole operation.

A key component of any house construction project is a thorough assessment of the existing building, land and street environment as well as knowledge of council and planning restrictions. Pitcher Partners took a similar thorough approach when we first started to work with Latitude 37, undertaking a risk assessment workshop that provided much-need strategic direction for the business, and also gave Pitcher Partners a unique opportunity to understand the business from the inside out.

As Latitude 37 continues to achieve commercial success and receive accolades from industry insiders, Pitcher Partners is delighted to share the journey with them.

What's New

For comments on this edition or if you wish to be removed from the Contact mailing list please email us at **editor@pitcher.com.au**. You can view Contact electronically at **www.pitcher.com.au/insights/contact-magazine**.

Wes Fleming and Scott Hodges

Horticulturalist Wes Fleming OAM

Congratulations to Wes Fleming, awarded an OAM this year for his service to the horticultural industry and to landscape architecture.

Fleming, the director of Fleming's Nurseries, has entered the prestigious Chelsea Flower and Garden Show competition a total of nine times, and in 2013, brought home the Best in Show award, as well as the gold medal.

Wes is a strong advocate for better urban environments through proper valuing of the trees and open spaces that Australia enjoys, and considers influencing government policy as vital to ensuring Australia remains the most livable country in the world.

Cobram Estate triumph in global tasting competition

Pitcher Partners also congratulates long-time client Cobram Estate for taking out an unprecedented 11 awards – including two Best in Class trophies – at the New York International Olive Oil Competition in April this year.

Established in 1998, Cobram Estate is the leading provider of olive oil in Australia, and today exports to countries including Canada, the USA, Hong Kong, Singapore, China, Thailand, the Maldives and Japan.

In a field of nearly 700 olive oils, and competing against heavyweights from Italy and Spain, Cobram Estate triumphed in the global tasting completion, again raising the reputation of Australian olive oils to new heights.

Cobram Estate CEO Rob McGavin

Tax toolkit

To assist our clients in year-end tax planning, Pitcher Partners has released a comprehensive year-end tax planning toolkit. The toolkit goes through a checklist of around 150 tax planning (as well as tax compliance) considerations for the 30 June 2015 income year. Visit our website at **pitcher.com.au** to download the toolkit.

Sydney merger

Our Sydney firm is set to expand with the announcement that Pitcher Partners and Moore Stephens will merge their practices effective 31 October 2015.

The greater size and strength we will now have in Sydney will improve our competitiveness and provide a platform for growth, as well as providing clients with a quality Australian firm with enormous depth that is focussed on the middle market.

Going electronic

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