Victorian Chamber of Commerce and Industry

2017-2018

STATE BUDGET SUBMISSION

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PREAMBLE

The Andrews Government has worked hard over the past two years to deliver a number of its election commitments.

Noteworthy are the Government's efforts to:

> Manage Victoria's finances responsibly.
> Lower the payroll tax burden on business.
> Invest in important public infrastructure and jobs.
> Undertake major reforms to the State's education and training sector.
> Position key industries with high growth prospects in priority markets.
> Help industries, workforces and regions transition to new opportunities.

These efforts are good for Victoria and good for business. It is now time to build on this work. The 2017-18 Victorian Budget provides the opportunity to introduce pro-business policies that underpin future economic activity, investment and job creation.

A sense of urgency must apply to this task. Although domestic economic conditions are positive, they are also patchy. Consumer confidence is fragile. Intense international competition continues to weigh heavily on many Victorian industries. Small business is under pressure from rising costs, impacting profitability and cash flow.

Victoria's unemployment rate was 6 per cent in November, moving slightly above the national average. The underemployment rate is currently around 9.5 per cent, highlighting not only low wages growth, but low labour force participation. Labour market conditions remain uneven across the State and youth unemployment continues to be elevated in a number of metropolitan and regional areas.

The 2017-18 Victorian Budget must address these trends with action that spurs economic growth and lifts business investment and job creation to higher levels.

The Victorian Chamber of Commerce and Industry considers further improvements in economic and business performance will be contingent on:

> Keeping Victoria competitive through continuing responsible economic and financial management.
> Improving the State's infrastructure base, especially productivity building and trade-facilitation projects.
> Lowering business costs associated with State taxation.
> New investment in education and training, including measures to boost apprenticeships.
> Supporting Victorian businesses to develop the knowledge and capability to enter and expand into priority international markets.
> Growing small business jobs and accelerating regulation reform to lift competitiveness.
> Fostering tourism and events industry success by strengthening domestic, regional and international marketing.

The recommendations contained in the Victorian Chamber's submission are designed to achieve these objectives.

They reflect the priorities of Victorian business and have been shaped and informed by member input, including participation in the Victorian Chamber's Victoria Summits and Small Business, Higher Education, International Engagement and Agribusiness Taskforces.

Mark Stone AM
Chief Executive,
Victorian Chamber of Commerce and Industry

THE BUDGET CONTEXT

The Victorian economy grew solidly over the past year with strong population growth fuelling rises in household consumption and dwelling construction.

The growth in demand was assisted by the low interest rate environment and rising property prices.

Underlying business investment was robust. Fluctuations in the exchange rate, which finished the year slightly lower, provided relief to Victorian exporters and import competing industries.

The 2015-16 Financial Report shows that the State achieved a net operating surplus of $2.7 billion in 2015-16. The 2016-17 Budget Update forecasts a Budget surplus of $1.7 billion, with strong operating surpluses averaging $1.9 billion across the forward estimates.

The higher than expected sale price associated with the lease of the Port of Melbourne will further bolster the State's strong fiscal position and must not be squandered.

The Victorian Chamber urges the Government to leverage its strong balance sheet and take advantage of current low interest rates with prudent increases in debt to invest in productivity-enhancing infrastructure, consistent with the State's triple-A credit rating.

The robust economy and exceptional liquidity characterising Victoria's financial position provides a strong foundation to tackle emerging challenges. Foremost among these are:

> Victoria's growing population which is placing pressure on resources, services and liveability.
> Ageing infrastructure which is failing to keep pace with growing population and industry needs.
> Global competition which continues to weigh on the State's manufacturing sector.
> Fragile consumer confidence which is tempering the pace of growth across many industries.
> Workforce participation and productivity rates which are not as high as they could be.

The 2017-18 Victorian Budget needs to address these challenges and cement a sustainable growth path for the State into 2017 and beyond.

It can do so by continuing the process of responsible economic and financial management that keeps spending in check. This is vital to support strategic investment in productivity enhancing infrastructure. It is also key to enabling further business tax relief to keep Victoria competitive.

It can do so by continuing the momentum of current vocational education and training reforms and introducing new measures to upskill the workforce of the State' most significant employing industries.

It can do so by getting more small and medium sized businesses internationally engaged and by reducing red tape and growing small business jobs.

And it can do so by helping our tourism and events sector develop new products and services and strengthening Victoria's reputation as a great place to visit and invest.

The recommendations contained in our submission outline the steps that the 2017-18 Victorian Budget must take to keep Victoria strong and growing.

PRIORITY RECOMMENDATIONS

Keep Victoria competitive.

Ensure Victorian Budget forecasts for low expenditure growth over the forward estimates period are met.

This will help Victoria keep its Triple-A rating, ensure monies are available to invest in infrastructure, help pay down debt and strengthen investor certainty.

Strengthen infrastructure.

Commit to commence the North East Link in this term of Government.

This project will make a significant contribution to improving freight flows, reducing travel times, reduce congestion and improve access to metropolitan employment centres. With both major parties indicating strong support for this project, it must proceed as a priority.

Lower business costs.

Increase the payroll tax threshold to $850,000 by 1 July 2018.

This will keep Victoria competitive against other States, help tackle unemployment and support business growth.

Improve education and training.

Allocate $100 million over four years to establish a Foundation Industries Fund to provide eligible employers in the retail, health services and hospitality industries up to $4000 to offset the cost of accredited and non-accredited training for existing employees.

This will ensure up to 25,000 employees in Victoria's retail, health services and hospitality industries are highly productive and competitive.

Increase apprenticeships and traineeships.

Provide a meaningful (eg 10 per cent) reduction in payroll tax liability to businesses that commit to getting at least five per cent of their workforce in apprenticeships or traineeships within five years.

This will get more Victorians into apprenticeships, strengthening the State's workforce capabilities now and into the future.

Strengthen international engagement.

Establish a $5 million Export Insights program to help new exporters enter priority markets.

This will reduce information and knowledge gaps, enabling more Victorian businesses to engage in priority international markets.

Grow small business, grow jobs.

Allocate $25 million to extend the Back to Work program to small businesses with an annual turnover of less than $2 million.

This will help offset the cost of hiring and training employees crucial to further small business growth. In doing so, it will help grow jobs.

Tackle red tape.

Make agribusiness the next priority in the Government's small business regulation review program.

This will make Victorian agribusiness more competitive at home and abroad, spurring the investment and innovation needed to grow the State's reputation as a producer of high quality food and fibre products.

Foster tourism and events industry success.

Allocate $23 million per annum in new funding to support Visit Victoria activities (regional, domestic and international tourism marketing).

This will leverage Victoria's liveability credentials and enhance its reputation as a vibrant visitor destination.

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RECOMMENDATION 1

KEEP VICTORIA COMPETITIVE

3.3%

growth in Victoria's economy in 2015-16

1.9%

Victoria's population growth in the year to March 2016

5.5%

forecast Victorian unemployment rate by 2017-18

Victoria's economy grew by 3.3 per cent in 2015-16 as the national economy transitioned from the mining investment boom and local activity benefited from a lower exchange rate and historically low interest rates. This solid growth was underpinned by activity in the construction and finance sectors.

The 2016-17 Budget Update forecasts suggest that Victoria's economic conditions are expected to remain strong over the forward estimates period. Victorian economic growth is being driven by a lower exchange rate and low interest rates which are creating favourable conditions for businesses and consumers.

Victoria's population growth leads the nation at 2.1 per cent in 2015-16 and is expected to remain above the Australian average as Victoria continues to attract a high share of migrants from interstate and overseas.

Victorian labour market conditions are also expected to continue to improve with the unemployment rate projected to decline from the 2014-15 level of 6.4 per cent to 5.5 per cent by 2017-18.

Importantly, the 2016-17 Budget Update demonstrates a commitment to responsible fiscal management with operating surpluses forecast to total $7.4 billion over 4 years.

A key factor in meeting these fiscal targets will be keeping expenditure in check. While average annual growth in expenditure (at 4.1 per cent) is not projected to exceed growth in revenues (4.2 per cent), it is essential that the Government keeps spending and wage costs under control.

This will be particularly important in the Budget out years which are premised on very modest expenditure growth projections (1.4 per cent in 2019-20).

These forecasts appear ambitious in the context of recent public sector wage agreements which deliver pay increases of three per cent per annum and above.

With employee expenses comprising 42 per cent of total operating expenses these agreements will make it more difficult to constrain expenditure. 2018 election commitments will also need to be met while keeping within these parameters.

Funding a pipeline of future infrastructure investment is also key to maintaining Victoria's competitiveness. In addition to using surpluses to fund infrastructure, the Government should identify and pursue further opportunities for asset recycling and fight for a fairer share of Federal infrastructure funding for Victoria.

4.1%
projected expenditure growth

4.2%
projected revenue growth

42%
employee expenses as a percentage of total budget operating expenses

Other 2017-18 Victorian Chamber recommendations

> Strictly adhere to a public sector wages policy that keeps public sector wages in line with private sector benchmarks.
> Use the State's balance sheet to fund key infrastructure investments by allowing for net debt to be increased to 6 per cent of gross state product.
> Ensure that the proceeds of asset sales are directed to productive infrastructure investment.
> Given the success of the Port of Melbourne sale, identify and pursue further opportunities for asset recycling.
> Fight for a fairer share of Federal infrastructure funding for Victoria.
> Ensure Victorian total tax revenue as a share of gross state product is kept at or below the national average.

Recommendation 1: Ensure Victorian Budget forecasts for low expenditure growth over the forward estimates period are met.

Benefits to business

> Maintains triple-A credit rating and promotes investor confidence.
> Encourages public sector efficiency and productivity growth.
> Frees up expenditure to invest in transformational economic infrastructure projects and new road, rail and social infrastructure required to keep pace with population growth and maintain liveability.
> Improves capacity to cut business taxes.
> Reduces pressure on private sector wage growth.

How

> Prudent fiscal management, including expenditure-savings and public sector efficiency improvements.
> Explore alternative models for the delivery of services, maximising the expertise of the private sector, where appropriate.
> Publically commit to robust fiscal targets.

RECOMMENDATION 2

STRENGTHEN INFRASTRUCTURE

100K+

Victoria's annual population growth

The Victorian Chamber has consistently sought to highlight the vital role infrastructure plays in underpinning and supporting long term economic growth and liveability. Front and centre of our advocacy agenda are projects that address growing population pressures and improve business productivity and competitiveness across the State.

Liveability is a core and important feature of any modern economy. Victoria is fortunate that its liveability credentials are already strong:

> Melbourne has consistently been ranked as the world's most liveable city.
> We have a modern health system.
> Our world class higher education system has strong links with industry.
> We have open spaces for a healthy living environment.

Growing our liveability credentials will depend in no small part on continuing to invest in and refresh not only important 'hard' infrastructure like transport, hospitals and schools but also 'soft' infrastructure in areas like the arts, recreation and environment. The interdependence of liveability and competitiveness is such that we must continue to invest in capital to respond to population growth, enable workforce participation, lift productivity and support Victoria's changing, globally integrated economy. With Victoria's population increasing by more than 100,000 people per annum, significant investment is required to maintain and grow Victoria's infrastructure base.

The Victorian Chamber has made submissions to each stage of Infrastructure Victoria's development of a 30-year infrastructure strategy.

Infrastructure Victoria's modelling and economic analysis of the North East Link project indicates it is a high performing project offering substantial benefits in terms of linking people to employment across the city and improving freight reliability and travel times.This is a vital project that must be commenced in this term of Government.

Completion of the North East Link will help address the growing freight truck traffic from the Dandenong area to the Hume and Western Freeways and relieve congestion in Melbourne's north-eastern suburbs. Less congestion cuts the cost of doing business and increases the ability of workers to go where the jobs are.

This link is also important to the freight industry, connecting industrial sites in the south east, particularly around the Dandenong area, to the Hume Freeway.

The North East Link will provide a major new connection to and from Melbourne airport for residents and businesses in Melbourne's east.

The Victorian Chamber has consistently sought to highlight the vital role infrastructure plays in underpinning and supporting long term economic growth and liveability. Front and centre of our advocacy agenda are projects that address growing population pressures and improve business productivity and competitiveness across the State.

Other 2017-18 Victorian Chamber recommendations

> Develop and fund a comprehensive five-year infrastructure plan responding to Infrastructure Victoria's recommendations to create a pipeline of new productive infrastructure investments for the State.
> Finalise the site for a new airport in Melbourne's southeast.
> Upgrade freight connections from the Geelong Ring Road to the Port of Geelong.
> Complete the duplication of the Princes Highway from Traralgon to Sale.
> Construct the Goulburn Valley Freight and Logistics Centre (GV Link) in Shepparton.
> Progress the construction of road bypasses in and around Traralgon, Shepparton, Rutherglen and Mildura.
> Fund ongoing development and upgrades to the great ocean road to ensure that it can recover from recent weather events, accommodate future growth in visitor numbers and maintain its position as a world class tourism destination.

Recommendation 2: Commence the North East Link in this term of Government

Benefits to business

> Completion of the North East Link, from Greensborough to Ringwood, will help address the growing freight truck traffic from the Dandenong area to the Hume and Western Freeways and relieve congestion in Melbourne's north-eastern suburbs. Less congestion cuts the cost of doing business in Victoria and increases the ability of workers to go where the jobs are.
> The North East Link is also of significant importance to the freight industry, connecting industrial sites in the south east, particularly around the Dandenong area to the Hume Freeway.
> The North East Link will provide a major new connection to and from Melbourne airport for residents and businesses in Melbourne's east.

How

> The project is estimated to cost up to $10 billion. Both the State and Federal Governments must get this critical project underway as part of a long-term integrated transport strategy to cope with Melbourne's growing population which is expected to grow to six million people by 2031.
> Allocate funds to begin work on this project in 2017 (scoping of works and initial financial, economic and environmental analysis).

RECOMMENDATION 3

LOWER BUSINESS COSTS

$650K

scheduled Victorian payroll tax threshold at 1 July 2019

40K

estimated number of Victorian businesses that would benefit from an increase in the payroll tax threshold to $850,000 by 1 July 2018

Measures that lower the cost of doing business and stimulate investment and jobs must be at the top of the Government's agenda for the 2017-18 Victorian Budget.

Business has done it hard in recent years. The cost of many key business inputs – labour, energy, transport, distribution and insurance – have risen. Operating in a fast paced and highly competitive environment, few Victorian businesses have been in a position to pass these higher costs on to end customers.

While Victoria collects a wide range of taxes in order to fund its services, the Victorian Chamber's members consistently tell us that the operation of the payroll tax system is one of the biggest impediments to improved business competitiveness, profitability and investment.

Although the impact of payroll tax varies among different industries and different sized firms, its overall effect is to increase the cost of labour (especially among firms with payrolls above the tax-free threshold) and raise the price of intermediate inputs and final consumer goods and services. In short, it is a tax that discourages employment.

Victorian business welcomed the scheduled increase in the payroll tax-free threshold (in $25,000 increments over four years) to $650,000 by 2019-20. However, a more substantive and timely increase in the threshold is needed to provide a timely boost to business competitiveness and encourage job creation.

In the Victorian Chamber's view, there are three compelling reasons why the payroll tax threshold should be increased to $850,000 by 1 July 2018:

Victoria needs to remain competitive.

> Under the current timetable, it will not be until 1 July 2019 that the payroll tax threshold will have risen to $650,000. Even modest economy wide average annual wages growth of around 2-3 per cent per annum over the next three years will erode a considerable amount of the benefit of the higher threshold.

> A threshold of $850,000 will help keep a number of businesses out of the payroll tax net and keep Victoria competitive against NSW and WA whose payroll tax thresholds are $750,000 and $850,000 respectively. Victoria needs to not only have a low payroll tax rate, but an 'employment friendly' threshold that shows we are open for business.

Victoria needs to tackle unemployment.

> Victoria's labour market is facing multiples pressures: high youth unemployment, jobless rates in a number of parts of metropolitan and regional Victoria well above the State average, and structural change affecting many goods producing and trade exposed industries.

> By lowering the cost of doing business, the increase in the payroll tax free threshold will encourage employers to hire, benefiting not only industry, but job seekers.

Conservatively, over 40,000 businesses would benefit, particularly small to medium sized businesses.

> We estimate many small to medium sized businesses would fall out of the payroll tax net altogether and no longer have to pay this tax. Their savings could be used to fund business growth, including new job creation.

Measures that lower the cost of doing business and stimulate investment and jobs must be at the top of the Government's agenda for the 2017-18 Victorian Budget.

Other 2017-18 Victorian Chamber recommendations

- Commit to a timetable for progressive increases in the payroll tax threshold beyond $850,000 to ensure Victoria remains competitive against other Australian States.
- Conduct a review of State taxes, including the release of a Green Paper that identifies the costs and benefits of State tax reform. This review must be completed within twelve months. For more than a decade, opportunities to examine options to shift the State's revenue base toward more efficient, productivity enhancing taxes have been missed.
- Explore opportunities to reduce business WorkCover costs through a premium reduction and/or incentives for good workplace OHS performance (such incentives could include a no claims bonus or the removal of an excess when employers demonstrate good safety or return to work performance).
- Reduce the differential between the Fire Services Property Levy charged on residential and commercial/industrial properties by at least 25 per cent. Currently commercial and industrial property owners pay double the fixed charge ($213 versus $105) and a variable charge up to 14 times that of residential properties (85.4 cents per $1000 of capital improved value for metropolitan industrial properties versus 5.9 cents for metropolitan residential properties). This results in businesses making a disproportionate contribution to funding fire services and cross subsidising households.
- Do not introduce any new taxes or charges, or raise existing taxes.

Recommendation 3: Increase the payroll tax threshold to $850,000 by 1 July 2018.

Benefits to business

- A threshold of $850,000 will help keep a number of businesses out of the payroll tax net and keep Victoria competitive against NSW and WA whose payroll tax thresholds are $750,000 and $850,000 respectively.
- By lowering the cost of doing business, the increase in the payroll tax free threshold will encourage employers to hire, benefiting not only industry, but job seekers.
- Conservatively, over 40,000 businesses would benefit, particularly small to medium sized businesses.

How

- We estimate the cost to Government revenue from raising the PRT threshold from its current level to $850,000 is approximately $425 million over two years.
- This measure could be funded from the Budget surplus given the strong State Budget position and forecasts of continuing economic growth.
- Limiting or reducing spending is important to ensuring this measure is affordable and responsible. So too is smarter spending. Better targeting of Government programs and stronger partnerships with other sectors of the community in their delivery and funding may assist not only in producing better outcomes, but reducing the fiscal pressures on Government.

RECOMMENDATION 4

IMPROVE EDUCATION AND TRAINING

A vocational education and training system that delivers quality and work-relevant skills across the economy is vital to improving productivity, creating jobs and increasing Victoria's economic growth.

Unfortunately, this has not always been the case in Victoria. In recent years, the Vocational Education and Training (VET) system has been characterised by poor training quality, low completion rates and a failure to ensure training aligns with industry demand. Stakeholder confidence has been damaged and there has been a pressing need to restore stability, quality and value to the system.

The importance the Andrews Government has attached to reviewing and reforming the VET system since coming to office has been welcome. A number of measures designed to increase training quality are now in place. These include a new funding model based on the real cost of training, stronger provider performance assessment, targeted funding for thin markets and a new engagement model to give industry a stronger voice.

Many of these reforms are aligned with the recommendations advocated for by the Victorian Chamber through our Higher Education Taskforce and submissions to the VET Funding Review and the Review of Quality Assurance in Victoria's VET System.

They are essential to giving employers confidence that their industries will have the skilled workers they need now and into the future.

With the shift to a knowledge economy, new and emerging technologies, continued globalisation and structural change having a direct impact on employment and workforce skill requirements, it is more important than ever that the Victorian vocational education and training system is capable of responding to these challenges and is aligned with the Government's economic development agenda.

In light of recent Ministerial changes to the Education and Training portfolio, it is crucial that the pace and direction of VET reforms are not compromised. The 2017-18 Victorian Budget provides the opportunity to preserve, and build upon, existing momentum.

This can be done by keeping the Government's VET investment strong and focused on industry needs. New and emerging industries and Victorian Government priority sectors will benefit from the Workforce Training Innovation Fund. However, it is equally important that significant Victorian foundation industries like retail, hospitality and health services are able to access training support that develops the skills of their existing employees.

The Victorian Chamber recognises that the Victorian Government's Back to Work Scheme helped employers strengthen their workforces with incentives to hire and train disadvantaged job seekers, but equivalent program support to upskill existing employees was not a feature of the program.

The 2017-18 Victorian Budget provides an opportunity to address this gap with dedicated new funding to help employers in the retail, hospitality and health services industries offset the cost of

accredited and non-accredited training among existing workforces.

Such support would benefit employers in these key industries that cannot find suitably trained workers or are not in a position to expand their current workforce but still value investment in workforce training.

Other 2017-18 Victorian Chamber recommendations

- Ensure public sector investment in VET remains stable, contestable and responsive to current and future industry training needs.
- Monitor the new 2017 Funded Course List to ensure vocational education and training subsidies reflect the real costs of training, particularly in regional locations.
- Ensure new measures to strengthen training provider contracts and compliance do not add additional and unnecessary costs to compliant providers that have a demonstrated track in delivering quality training. In partnership with industry bodies, examine how a VET quality rating system could be implemented.
- Keep TAFEs competitive through improved market analysis and business intelligence, strong governance and management and improved performance measurement and reporting.
- Fast-track the establishment of the ten new Industry Advisory Groups (IAG) to provide timely advice to the Victorian Skills Commissioner on current skill demand pressures and future industry skills needs. As part of this, review whether current practices for collecting and disclosing data on VET are meeting the needs of business and training providers.
- Promote regional businesses access to the $30 million Regional and Specialist Training Fund to support sectors with unique employment or skill needs, such as agribusiness. Ensure measures are in place to enhance access to agribusiness vocational education and training in regional Victoria such as increased use of information and communications technology to deliver training courses.

Recommendation 4: Allocate $100 million over 4 years to establish a $100 million Foundation Industries Fund to provide eligible employers in the retail, hospitality and health services industries with up to $4,000 to offset the cost of accredited and non-accredited training for existing employees.

Benefits to business

- Ensures up to 25,000 employees in Victoria's retail, health services and hospitality industries are highly productive and competitive.
- Increases workforce productivity, particularly for businesses who struggle to find suitably trained workers or who are not in a position to expand their workforce but still value investment in training.

How

- Eligible businesses would receive up to $4,000 per employee to provide workforce training.
- Training would be customised for specific workplace needs and the skills levels of individual employees. It would support and complement the implementation of individual business growth strategies.
- Funding would be available for small and medium sized businesses across metropolitan Melbourne and regional Victoria.

RECOMMENDATION 5

INCREASE APPRENTICESHIPS AND TRAINEESHIPS

$1M+

investment, over three years, by the Victorian Chamber in its Internship Program

100

number of Internship placements created by this program

52%

decrease in apprentices and trainees from 2012 levels

The skills developed by apprentices and trainees are a key driver of the Victorian economy. Key sectors like advanced manufacturing, construction, retail, tourism and hospitality are particularly dependent on apprentices and trainees for both workforce stability and future growth.

An apprenticeship or traineeship provides young people and those transitioning from a previous career with the opportunity to develop not only technical skills but soft or employability skills such as communication, teamwork and problem solving. These skills are becoming increasingly important as workplace structures and roles change.

Apprenticeships and traineeships also provide an important entry career pathway for many young Victorians. Recognising the value and importance of preparing young people for work, the Victorian Chamber has led by example in launching its very own Internships Program in December 2015.

This program has been, and continues to be, a great success. It has delivered 100 student internship placements providing them with 'real-world' work experience. The program will provide over $1 million for internships over three years.

Adult apprenticeships and traineeships are also important. As major Victorian industries undergo structural change, adult apprenticeships can help workers retrain, reskill and transition into new careers.

Compared to bachelor degree graduates, research shows apprentices and trainees are more likely to be in full time employment six months after completing their training. Despite this, apprenticeship dependent trades such as chefs, hairdressers, mechanics, electricians and carpenters continue to experience skills shortages. No less concerning is that the number of apprentices and trainees who commenced training in Victoria in 2015 was 43,900, a decrease of more than 52 per cent from 2012 levels.

This decline has coincided with a broader weakening in the labour market and rises in unemployment across the economy.

However, it also partly reflects increased confusion and complexity for apprenticeship service providers and users in recent years as a result of continual reforms to funding models and incentive structures by both State and Federal Governments: the Commonwealth provides employers with financial incentives for apprenticeship and traineeship commencements, while the State Government funds training provider delivery.

While the lack of Commonwealth Government support for apprentices and trainees is concerning and needs to be addressed, this does not mean that the Victorian Government cannot play a major role in increasing apprenticeship and traineeship commencements.

A recent survey by the Victorian Chamber found that 19 per cent of respondents identified wage costs as a major deterrent from hiring apprentices and trainees. In this regard, payroll tax relief and/or further financial rebates for employers can play an important role in lowering the cost of labour and stimulating job demand amongst employers.

The 2017-18 Victorian Budget therefore needs to stem the alarming decline in apprentice and trainee numbers, tackle youth unemployment and ensure Victoria's current and future workforce is job ready and industry aligned.

Other 2017-18 Victorian Chamber recommendations

- Establish the Victorian Apprenticeships e-Alliance, an online portal to list apprenticeship opportunities among companies that have not previously engaged apprentices.
- Resource Apprentice Network Providers to support more effective matching of apprentices, trainees and employers. This should include additional support to apprentices and trainees that face specific work-readiness challenges such as poor literacy and numeracy. It should also include support for employers to help them understand their rights and obligations within the apprenticeship system.
- Boost the reputation and profile of apprenticeships by introducing a dedicated communication campaign to target emerging and priority industries (e.g. new energy technologies) to attract young talent and improve the image of apprenticeships within the sector. Too often parents and Career Advisers automatically recommend a university career pathway and do not understand the benefits of an apprenticeships and where it can lead.
- Implement a stronger model for Vocational Education and Training in schools which includes a structured approach to partnering with industry to provide work integrated learning opportunities. In addition, ensure young people receive independent and accurate advice on both higher education and vocational education career pathways by establishing a coordinated network of career advisers.
- Provide a $4,000 wage subsidy for employers taking on an older apprentice (aged 21 and older). Comparatively low wages are often a disincentive to older workers to enter the apprenticeship system to upgrade their skills or transition to a new industry. A wage subsidy would overcome this barrier.

Recommendation 5: Provide a five per cent reduction in payroll tax liability to businesses that commit to getting at least five per cent of their workforce in apprenticeships or traineeships within five years.

Benefits to business

- Removes cost barriers preventing businesses from taking on apprentices and trainees.
- Increases business efficiency and productivity by building skills and capacity within their workforces.
- Increases the ability of businesses to attract and recruit staff to meet existing or future skills needs who are already familiar with the cultural and technical specifications of an organisation.

How

- Businesses who register with Apprenticeship Support Australia and commit to a strategy of getting at least five per cent of their workforce in apprenticeships or traineeships within five years would receive a meaningful (eg 10 per cent) cent reduction in their payroll tax liability.
- Eligible businesses would need to outline how they will meet their apprenticeship and traineeship targets and be required to report on progress each year.

RECOMMENDATION 6

STRENGTHEN INTERNATIONAL ENGAGEMENT

5.1%

average rise in exports over the five years to June 2015

2%

of Victorian businesses export their goods

$10B

annual value of trade between China, Japan, Korea, Malaysia, Singapore, Indonesia and Victoria

Victoria's export performance is strong. It is also growing. The value of exports rose by an average of 5.1 per cent per annum over the five years to June 2015, despite the headwinds of a high Australian dollar over much of the same period.

Traditional markets such as Europe, the USA and the Middle East remain important to Victoria. However, key markets in the 'greater Asian region' have become significant drivers of global economic growth and trade.

Countries like China, Japan, Korea, Malaysia, Singapore and Indonesia now account for more than $10 billion in trade per annum and make up six out of Victoria's top ten goods export destinations.

These economies are characterised by significant population growth, urbanisation and rising incomes that are forecast to result in unparalleled demand for quality products and services into the future.

Victoria is well placed to meet this demand. It already has a strong track record providing quality goods and services from key sectors like food and fibre, health and aged care, professional services and tourism.

In fact, Victoria now accounts for over nine per cent of Australia's goods exports ($24 billion) and is the second largest contributor to the nation's service exports, representing 25 per cent. However, this is behind NSW, which contributes 40 per cent. While Victoria's share of the total value of Australian goods exports is commendable only a small percentage of Victorian businesses export their goods. Only 12,000 out of more than half a million Victorian businesses (two per cent) are leveraging opportunities in international markets.

The challenge is to increase the number of small and medium sized businesses who are internationally engaged. Realising this objective will not be easy. Our trade competitors will not sit idly by.

Further success in the intensely competitive global marketplace will largely depend on businesses building competitiveness, continuing to innovate and proactively seeking out new markets for their products and services.

However, many businesses, particularly small and medium sized, lack information about international market opportunities, production processes, distribution methods and marketing avenues.

The 2017-18 Victorian Budget must help overcome these barriers with measures that enable businesses to become more competitive and active in building their international trade capability and presence.

Foremost is the need to establish an Export Insights program to help new exporters enter priority markets.

Other 2017-18 Victorian Chamber recommendations

> Extend the Victoria-Israel Science Innovation and Technology Scheme (VISITS) to other priority growth markets.
> Facilitate the development of emerging clusters and business precincts. This includes support for Fishermans Bend to continue to evolve into Melbourne's pre-eminent high technology industrial precinct.
> Fund a $5 million Investment Ready program to identify and support Victorian small and medium sized businesses seeking inward investment as part of their trade expansion strategy.

Victoria's export performance is strong. It is also growing. The value of exports rose by an average of 5.1 per cent per annum over the five years to June 2015, despite the headwinds of a high Australian dollar over much of the same period.

- Support the development of a coordinated national brand for international marketing of Australian agrifoods, Victoria's largest exporting industry.
- Improve pre and post trade mission support for business and examine the opportunity to outsource the delivery of inbound and outbound trade missions to the private sector.
- Fund a series of 'Global Best Practice' seminars to build international engagement awareness and capabilities among Victorian business. Delivered by the private sector, the seminars would highlight the experience of businesses who have successfully transformed their business model and culture to develop new commercial opportunities in the global marketplace.

Recommendation 6:
Establish a $5 million Export Insights program to help new exporters enter priority markets.

Benefits to business

- Helps provide up to 1250 aspiring Victorian exporters with a low-risk introduction to international markets, commercial opportunities and global business partners.
- Reduces information, knowledge and experience gaps faced by new exporters when exploring international business opportunities, production processes, distribution methods and marketing channels.
- Encourages businesses to establish a cost-effective and sustainable presence in international markets by underpinning sound due diligence and market research.

How

- The Export Insights program will provide tailored support for new exporters to explore potential international markets through in-depth training and facilitated trade missions to priority markets.
- Each eligible business will receive a $4,000 subsidy to participate in the program.
- Prior to in-market visits, industry experts will work with businesses to research and develop individual market entry strategies.
- Groups of businesses will visit key international markets. They will be provided with practical information and advice on how to do business locally. Introductions to successful Australian businesses already in market and potential supply chain partners will be included.

RECOMMENDATION 7

GROW SMALL BUSINESS, GROW JOBS

47%

of those employed in the private sector work in small business

96%

of all Victorian businesses are small

Small business is a major contributor to the health of the Victorian economy. A diverse sector, it generates ideas, investment and trade and provides a significant number of jobs, goods and services.

The number of new small businesses has grown every year since 2001. The challenge is to continue this growth into the next decade.

More than 47 per cent of people employed in Victoria's private sector work in small businesses and small businesses account for 96 percent of all Victorian businesses, according to the ABS publication *Counts of Australian Businesses, including Entries and Exits.*

Given the significance of small business to Victoria, the Victorian Chamber calls on the State Government to use the 2017-18 Victorian Budget to make small business a priority.

Reforms that champion small business will be rewarded with faster rates of business start-up and expansion, higher productivity, accelerated investment and jobs growth. However, such benefits cannot be left to chance.

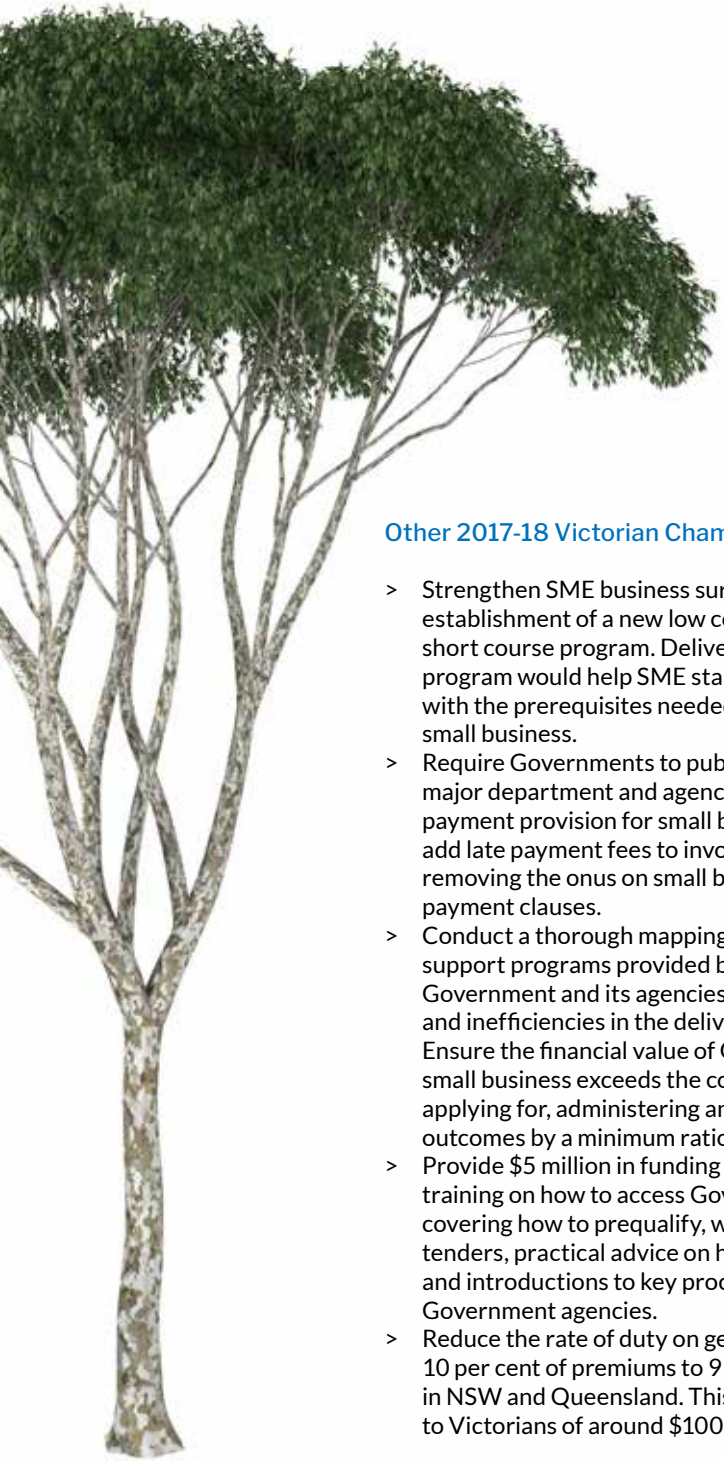
Even though domestic economic conditions are positive, trading conditions remain tough for many small businesses. Rising cost pressures have hit business hard. Profitability is weak, cash-flow is tight and business and consumer confidence is fragile. A number of the recommendations contained in the Victorian Chamber's submission will help lower small business direct and indirect costs, improve small business skills and get more small businesses into exporting.

However, because small business is the engine room of jobs growth, the Victorian Chamber considers more can and should be done to encourage Victorian small businesses to grow their workforces.

The Victorian Government's Back to Work Scheme was successful in creating numerous Victorian jobs over the past year. The scheme has been fully subscribed and has now closed for all employee categories except businesses that employ workers in the Latrobe Valley, retrenched automotive industry workers and dairy industry workers.

At present, there is no equivalent program to support jobs growth in industries with the greatest number of small businesses in Victoria. These include construction, professional, scientific and technical services, rental, hiring and real estate services, agriculture and financial and insurance services.

The Victorian Chamber calls on the State Government to use the 2017-18 Victorian Budget to allocate $25 million to extend the Back to Work program to businesses with an annual turnover of less than $2 million. Doing so will give small business the best chance to grow, and grow Victorian jobs.



Small business is a major contributor to the health of the Victorian economy. It generates ideas, investment and trade and provides a significant number of jobs, goods and services.

Other 2017-18 Victorian Chamber recommendations

- Strengthen SME business survival rates by funding the establishment of a new low cost Business Foundations short course program. Delivered by industry, the program would help SME start-ups acquaint themselves with the prerequisites needed to successfully operate a small business.
- Require Governments to publish how successful each major department and agency is at meeting the fair payment provision for small businesses. Automatically add late payment fees to invoices not paid on time, removing the onus on small business to invoke penalty payment clauses.
- Conduct a thorough mapping and analysis of all SME support programs provided by the Victorian Government and its agencies to minimise duplication and inefficiencies in the delivery of support programs. Ensure the financial value of Government grants to small business exceeds the costs associated with applying for, administering and reporting on grant outcomes by a minimum ratio of 3:1.
- Provide $5 million in funding to deliver small business training on how to access Government procurement, covering how to prequalify, where to find out about tenders, practical advice on how to form joint ventures and introductions to key procurement officers within Government agencies.
- Reduce the rate of duty on general insurance from 10 per cent of premiums to 9 per cent to match rates in NSW and Queensland. This would provide a saving to Victorians of around $100 million per annum.

Recommendation 7: Allocate $25 million to extend the Back to Work program to small businesses with an annual turnover of less than $2 million

Benefits to business

- A new allocation would enable the Back to Work Scheme to provide small business employers with up to $11,000 for hiring and training eligible workers who commence employment from 2 May 2017.

How

- All small business employers with an annual turnover of $2 million or less would be eligible, except for Government entities including local, State and Federal Government, Government owned corporations and statutory bodies. Employers would be asked to certify that:
  - They are committed to the ongoing employment of the employee.
  - They have a good workplace safety and industrial relations record.
  - The employee has not displaced any existing workers.
  - For an employee with a disability, that the employee is engaged in mainstream employment.

RECOMMENDATION 8

TACKLE RED TAPE

190K

number of people employed in the Victorian agribusiness sector

25%

reduction in red tape planned by the State Government

The operation of Victoria's regulatory regime is critical to underpinning business success, confidence and investment. The Victorian Chamber has been an active and consistent advocate of reforms that lower both direct and indirect business costs.

Regulatory burdens have a significant and disproportionate impact on small business. Lower regulatory burdens are essential for improving the competitiveness of Victorian small businesses.

Maintaining and improving Victoria's regulatory system requires a multifaceted approach, requiring:

> A robust system for scrutinising the impacts of new regulation and legislation to curb the growth in new regulation.
> An ambitious red tape reduction target to ensure that the cumulative burden of regulation is progressively reduced.
> Targeted reviews of high impact areas of regulation, such as planning and occupational health and safety, and key sectors of the economy, such as agribusiness, to drive major reforms in key areas.
> Action to improve in the administration of existing regulations by regulators such as through regulatory improvement studied or a reduction in the large number of regulators businesses need to interact with.

The Government's current Review of Regulation Impacting Small Business Retailers provides an important opportunity to identify and address key regulatory impediments faced by small business across the State.

The Victorian Chamber considers that agribusiness should be the next focus of the Government's program of small business regulation reviews.

Despite being a significant sector of the Victorian economy employing over 190,000 people, the regulation of agribusiness remains excessive with many producers shackled by costly and unnecessary red tape.

Not only are the number of regulations impacting the agribusiness sector vast, they are also implemented by multiple agencies across all levels of Government.

For example, food regulation in Victoria is determined by the national body Food Standards Australia New Zealand and managed by two State Government departments (Department of Health and Human Services and Department of Economic Development, Jobs, Transport and Resources).

In addition, two State statutory authorities (PrimeSafe and Dairy Food Safety Victoria) and 79 local Councils regulate food businesses not licensed by the statutory authorities.

The multitude of complex and often inconsistent regulations operating at all levels of Government adds significantly to the cost of doing agribusiness and must be overhauled if Victoria is grow its reputation as a producer of high quality, competitively priced and safe food products.

The operation of Victoria's regulatory regime is critical to underpinning business success, confidence and investment.

Other 2017-18 Victorian Chamber recommendations

- Reverse the decision to impose three new public holidays on Victorian business: Easter Sunday, Grand Final eve and an additional Christmas day holiday where Christmas falls on a weekend.
- Publically report on progress in achieving the Government's 25 per cent red tape reduction target.
  - Undertake targeted reviews into the following regulatory 'hot spots': planning, environmental regulation administration of State taxes, OHS and food safety.
    - Strengthen the powers and resources of the Red Tape Commissioner in order to broaden the depth and reach of the Commissioner's work.
      - Reinstate the program of Regulatory Improvement Studies undertaken by the former Victorian Competition and Efficiency Commission. This would allow central agencies to work in conjunction with regulators to identify practical actions to improve regulatory efficiency and effectiveness and to cut unnecessary regulatory burdens.
    - Strengthen the use by Government departments and agencies of Regulatory Impact Statements (RIS) to assess the impacts on small business of proposals for new, sunsetting or amending regulations. These should also be available and open to public scrutiny.

Recommendation 8: Make agribusiness the next priority in the Government's small business regulation review.

Benefits to business

- Makes Victorian Agribusiness more competitive by reducing the cumulative burden of multiple layers of regulation administered by three levels of Government.
- Promotes innovation and new business start-ups in the agribusiness sector through lower regulatory barriers.
- Protects and grows Victoria's reputation as a producer of high quality and safe agricultural products.

How

- As part of the Government's planned progress of three small business regulation reviews, undertake a comprehensive end-to-end review of regulatory burdens facing small businesses in the agribusiness sector.
- Identify and implement specific reforms that will improve the competitiveness of Victorian agribusiness.

RECOMMENDATION 9

FOSTER TOURISM AND EVENTS INDUSTRY SUCCESS

$6.7B
spent by international visitors to Victoria in the year ending June 2016

18.9%
increase in expenditure by international visitors compared to 2015

$440M
overnight expenditure by international visitors to regional Victoria

8.5%
increase in nights spent in regional Victoria by international visitors compared to 2015

The tourism and events industry makes a vital contribution to Victoria. It is a key driver of both regional and State economic growth, exports and employment.

The benefits to the State of our tourism and events industry are not just economic. The sector also supports regional development, new infrastructure provision, State branding and promotion, social and community cohesion and innovation.

It is very much a part of what makes Victoria a great place to work, live and visit, adding to the vibrancy and diversity of the State. When combined with teaching and research excellence, this vibrancy is key to the strength of Victoria's highly successful international education sector, the State's largest services export industry.

The Victorian tourism industry has performed well in the past year. International visitors to Victoria spent $6.7 billion in the year ending June 2016, an increase of 18.9 per cent on the previous year. Melbourne also experienced strong year-on-year growth in international visitor spending and numbers, outperforming the national capital city averages on these measures in the past 12 months.

However, growth in visitor nights in Melbourne lagged behind the Gold Coast and Sydney. Adelaide and Hobart both also out-performed Melbourne in terms of international visitor spend.

In regional Victoria, international visitor numbers rose strongly in the year ending June 2016. International overnight expenditure increased by 8.4 per cent to reach $440 million. International visitor nights in regional Victoria also increased by 8.5 per cent compared to the previous year.

For the same period, domestic overnight expenditure was $12 billion. Growth in expenditure in Victoria was ahead of New South Wales but behind the national average.

The tourism and events industry makes a vital contribution to Victoria. It is a key driver of both regional and State economic growth, exports and employment.

Overall, Victoria and Melbourne are performing well but compared to other States there are signs that we are starting to fall behind. There is a considerable risk of falling even further behind if a 'Business As Usual' approach is maintained.

Similarly, the commencement of the Melbourne Metro Rail Tunnel project heralds the start of unprecedented, long-term disruption to Melbourne's CBD. Although a critical piece of infrastructure, the Melbourne Metro Tunnel construction will have a significant impact on traffic flows in and out of the Hoddle Grid. This in turn will affect visitor access and the visitor experience overall, with key sites such as Federation Square directly impacted.

The Victorian Government must therefore use the 2017-18 Victorian Budget to strengthen tourism industry performance with a substantial boost in funding to support the Victorian Visitor Economy Strategy. This includes increased funding for Visit Victoria, and investment in tourism attractions, particularly in the nature-based tourism sector.

Other 2017-18 Victorian Chamber recommendations

- Provide $10 million for mitigation strategies to alleviate or offset negative impacts of the Melbourne Metro Rail Project to Melbourne's extensive events program.
- Provide $1.5 million to undertake economic modelling on the economic impact of events across the State, as well as qualitative research into the value of events. This should encompass medium sized regional events as well as business events and major events. The objective must be to obtain an accurate assessment of the value of the Victorian events industry to the Victorian economy.
- Ensure ongoing support for the Victorian Red Tape Commissioner to reduce the red tape burden on the tourism industry. This includes streamlining licensing approval processes for tour operators and reducing costs and delays in doing business across multiple land management areas. This will benefit not only existing tour operators but underpin the development of new attractions such as Melbourne Cable Park.
- Extend the CBD Free Tram Zone to include the Melbourne Convention and Exhibition Centre and the Southbank Arts Precinct.
- Provide an ongoing funding commitment for Greater Melbourne destination planning and marketing campaigns.
- Fund a long-term plan for the sustainable activation of the Yarra River precinct (Southbank and Northbank), including the development of a Winter Festival.
- Maintain the curfew free status of Melbourne Airport and support the Melbourne Airport Masterplan, including a third runway.

Recommendation 9: Allocate $23 million per annum in new funding to support Visit Victoria activities (regional, domestic and international tourism marketing).

Benefits to business

- Capitalises on Melbourne's liveability and enhances its reputation as a vibrant visitor destination.
- Helps ensure Victoria remains a leading destination for international visitors to Australia.

How

- Allocate an additional $18 million per annum for domestic and regional marketing campaigns (interstate and intrastate).
- Allocate an additional $5 million per annum for international marketing campaigns.

CONCLUDING COMMENTS

The ongoing transitioning of the State to a more diverse economy supported by strong population and service sector growth has been a defining feature of Victoria's recent economic performance. Equally important has been the commitment to responsible financial management and strong investment in productivity enhancing infrastructure.

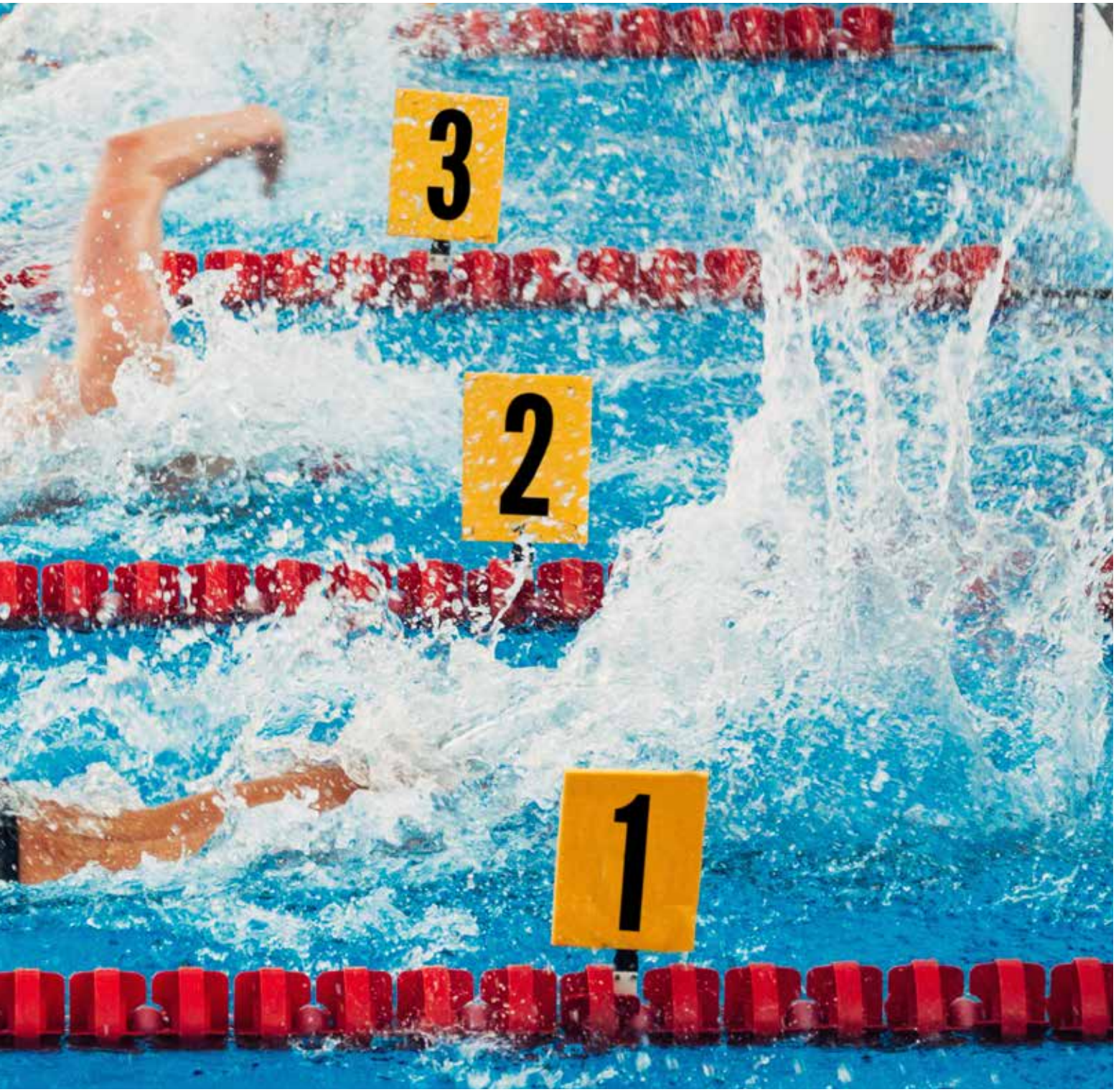
This strong investment and good economic management must continue into 2017.
It will be needed to respond to existing challenges, including industry restructuring, fragile consumer confidence and intensifying global competition, and respond to new ones.

A failure to do so will put Victoria's growth momentum at risk. It will also cost jobs and damage liveability.

Victorian business is therefore looking to the Government to use the 2017-18 Victorian Budget to:

> Keep spending in check to keep Victoria competitive.
> Improve the State's infrastructure base, lifting productivity and facilitating new trade and investment.
> Lower business costs.
> Invest in education and training and boost apprenticeships.
> Support Victorian businesses to expand into priority international markets.
> Grow small business jobs and accelerate regulation reform.
> Foster tourism and events industry success.

By implementing the recommendations contained in the Victorian Chamber's submission the Victorian Government will set the foundation for accelerated economic growth, new investment and renewed job creation in 2017 and beyond.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