



Victorian
Chamber of Commerce
and Industry

2019-2020

STATE BUDGET SUBMISSION

Introduction

Business stands ready to continue to work with the Andrews Government to secure deeper, wider and more sustainable and inclusive economic growth in 2019 and for years to come. With the right budget settings and industry policies in place, we can accelerate our growth and convert opportunity into prosperity.

We have a good base to work from.

Regional Victoria has the lowest payroll tax rate in the nation and Victoria's finances are in good health.

The Government has achieved surpluses averaging \$2.2 billion over the past four years and maintained Victoria's triple-A credit rating.

Victoria's economy continues to lead the nation. Real gross state product (GSP) increased by 3.5 per cent in 2017-18, well above the national growth rate of 2.8 per cent.

However, consumer and business confidence are under pressure from several fronts.

Economic activity has been concentrated in the health care, construction and financial services sectors. Industries like manufacturing and agriculture remain challenged by low productivity growth and intensifying global competition.

Small business is facing technology change and rising costs are eroding profitability and cash flow.

Labour market conditions are uneven and wage growth is sluggish.

Now is the time to meet these challenges, leverage our strengths and secure sustainable growth that benefits all Victorians.

The 2019-20 Victorian Budget can do this with practical actions that lower business costs, raise productivity and improve the environment for investment and jobs growth.

Victorian business is looking to the Government to use the 2019-20 Budget to:

- > Maintain responsible economic and fiscal management.
- > Lower business costs.
- > Deliver further improvements in the state's infrastructure base.
- > Strengthen the quality of education and training for industry.
- > Boost industry innovation and international trade.
- > Make our regions even stronger.

Our submission contains recommendations to achieve these objectives. They reflect the priorities of Victorian Chamber members and have been developed following sector-wide consultations on the most pressing issues and opportunities facing Victorian business.

1

Maintain responsible economic and fiscal management

Responsible economic management is important to business. It enables investment in services and infrastructure, helps reduce taxes and business costs and builds business confidence.

While GSP is forecast to increase by 3.0 per cent in 2018-19, it is expected to return to the trend rate of 2.75 per cent each year over the next four years.

Similarly, while further employment growth is expected in 2018-19, labour market conditions are expected to weaken over the next four years. Population growth is also forecast to moderate after a period of strong growth.

While average annual growth in expenditure is not projected to exceed growth in revenues, employee expenses are forecast to grow by 7.2 per cent in 2018-19 and increase by 4.2 per cent on average each year over the forward estimates.

It is therefore essential that the Government keeps spending and wage costs under control, especially given the risk of a potential downturn in government revenue. The 2018-19 Budget Update has forecast a decline in property stamp duty receipts of 6.8 per cent this year to reflect the cooling in residential prices, auction clearance rates and housing sentiment.

The importance of economic management will intensify considering the Government's commitment to stabilise net debt at 12 per cent of GSP over the medium term.

The rise in net debt puts Victoria's AAA credit rating at risk and it will be essential to ensure that increased borrowing is used to fund productive investments in infrastructure and that interest payments do not place undue strain on the budget.

Recommendations

- > Ensure that expenditure growth does not exceed revenue growth over the forward estimates period.
- > Maintain Victoria's AAA credit rating from Moody's Investors Service and Standard & Poor's Corporation.
- > Review taxes, charges and other business costs and commit to implement measures that contain or reduce costs.
- > Ensure public sector wages are kept in line with private sector benchmarks.
- > Fight for a fairer share of Federal infrastructure funding and a higher relative GST share for Victoria.
- > Ensure Victorian total tax revenue as a share of GSP is kept at or below the national average.

2 Lower business costs

The cost of doing business in Victoria is rising, putting at risk jobs and prosperity.

Business is grappling with rising energy and transport costs, increasing utility costs and higher land tax charges. Indirect costs from reforms to environmental protection, long service leave, portable long service and labour hire make it harder for business to comply with regulation.

In this environment, the Victorian Government has an opportunity to demonstrate its support for Victorian industry through real actions that lower business costs and improve the environment for investment and jobs growth.

A key priority for Victorian business is payroll tax relief. While regional businesses now enjoy the lowest payroll tax rate in the nation, many other Victorian small businesses are paying a tax they wouldn't have to pay if they were operating anywhere else in Australia.

An increase in the threshold from its current level of \$650,000 to \$850,000 would support 40,000 businesses to hire, benefiting both industry and job seekers.

The cost of doing business in Victoria is exacerbated by rising energy costs and energy reliability and security concerns. In addition, the Government's commitment to take a special dividend of \$2.3 billion from Workcover is a missed opportunity to reduce premiums and make further investment in workplace safety.

Unnecessary, poorly designed and poorly implemented regulation can also be a major barrier to business and jobs growth. Reforms are needed to help business navigate the regulatory requirements of multiple regulators, reduce delays in regulatory decision making and improve the way in which regulators engage with business.

Recommendations

- > Increase the payroll tax threshold to \$850,000 to grow jobs and lower the cost of doing business in Victoria.
- > Expand support for business energy efficiency and capital upgrades and hardship assistance for trade exposed businesses.
- > Lift the moratorium on onshore conventional gas exploration.
- > Legislate to remove the ability for the Government to take special dividends from state insurers.
- > Support business through the implementation of new environmental protection laws to ensure they do not add an unnecessary burden on industry.

3 Deliver priority infrastructure projects important to business and Victorian liveability

Leveraging the state's triple-A credit rating, the Victorian Government has indicated it will borrow \$25.6 billion to pay for state-shaping infrastructure projects over the medium term. These include major infrastructure announcements made in the lead up to the 2018 Victorian election that are Victorian Chamber priorities.

It is important these projects are delivered on time and on budget and that the private sector has opportunities to be involved in design, construction, operation and maintenance.

It is also important that infrastructure and land use planning be better integrated. The Victorian Government's recent announcement that it will move to protect vital agricultural land around Melbourne is an important initiative that needs to be expanded.

Doing so will provide confidence and certainty to existing industrial and commercial sites that operating efficiency, capacity and safety will not be compromised by encroachment from incompatible activities.

The 2019-20 Victorian Budget must include measures to maximise local content in Victorian projects, strengthen government tendering opportunities for business and attract more apprentices into key trades to ensure Victoria has the industry capability and workforce needed to deliver its significant infrastructure agenda.

Recommendations

- > Amend the Infrastructure Victoria Act 2015 to require Infrastructure Victoria to identify land use and infrastructure corridors that should be preserved to meet current infrastructure needs or reserved to meet future ones.
- > Build an East West Link as well as the North East Link and ensure other major infrastructure announcements made in the lead up to the 2018 Victorian election are delivered on time and on budget, including:
 - An airport rail link incorporating fast trains to Geelong and Ballarat.
 - The suburban rail loop.
 - The removal of 25 additional level crossings.
- > Extend funding for the Mode Shift Incentive Scheme for another four years to ensure the continued removal of trucks off major regional and metropolitan roads and onto our rail networks (current funding will conclude on 30 June 2019).
- > Plan for regional infrastructure needs to support population growth and jobs in Geelong, Gippsland, Ballarat and the Hume region.
- > Invest in new technologies to improve transport system efficiency, reliability and safety, including high capacity signalling across Victoria's transport network, upgrades to arterial roads traffic signal efficiency and accelerated trials of connected and automated vehicles (CAV).

4 Invest in education, training and apprenticeships

A strong education and training system that delivers high quality, work-relevant skills that meet industry needs is vital to creating jobs and increasing Victoria's economic growth.

A knowledge-based economy and a transport and construction boom is gradually replacing traditional manufacturing and Victoria's conventional retail economic base. Key sectors like advanced manufacturing, construction and tourism are particularly dependent on apprentices and trainees for both workforce stability and future growth.

However, since 2012 the number of apprentices and trainees in training has fallen by more than 50 per cent¹ and only 41 per cent of apprentices and trainees complete their training.² In some sectors, such as information technology, completion rates are as low as 29 per cent.³

There are many reasons why apprentices do not complete their training. Sometimes they are employment-related, such as interpersonal difficulties with employers or colleagues, not liking the work or changing a career.⁴ There is also an outdated view of the jobs and career outcomes an apprenticeship or traineeship can lead to. Too often parents and career advisors automatically recommend a university career pathway and do not understand the benefits of an apprenticeship and where it can lead.

These issues point to a need for policy reforms that provide greater support for smaller, less-experienced employers, greater mentoring support for apprentices and improve the quality of careers advice in schools.

Recommendations

- > Launch a public awareness campaign to boost the profile and reputation of apprenticeships and traineeships and introduce and resource a new careers advice model that highlights the benefits of vocational education pathways as well as university pathways to employment.
- > Fund a dedicated, comprehensive and tailored support service to assist businesses who have never engaged an apprentice. Strengthen recognition of employers who have demonstrated long term support to employing apprentices.
- > Stem apprenticeship and traineeship attrition rates through dedicated support to apprentices in the first six months of training (e.g. soft skill development, foundation skills training and mentoring).
- > Introduce a trial program to follow up on third- and fourth-year apprentices who drop out of their training arrangement to gather data on the reasons behind noncompletions and provide pathways guidance for completing their training with another employer or transitioning into a related training program.

¹ NCVER, Historical time series of apprenticeships and traineeships in Australia, released December 2018

² NCVER, Completion and attrition rates 2017, released July 2018

³ NCVER Total VET completion rates for programs commencing 2015-16, released 13 August 2018

⁴ Understanding the non-completion of apprentices, NCVER Research report, 12 June 2014

5 Boost innovation and grow business participation in international markets and government procurement

Stronger business innovation is a priority for the Victorian Chamber and needs to be a priority in the 2019-20 Victorian Budget. When businesses collaborate with research organisations, they more than triple their annual productivity growth.⁵

Unfortunately, while Victoria has a growing start-up ecosystem and our universities and research institutions are a vast resource of research and innovation for business, many businesses are not embracing innovation and collaboration at the level needed to stay competitive.

Like their Australian counterparts, Victorian firms tend to innovate by modifying innovations introduced by other Australian firms, rather than creating new-to-market innovations.

They are also not realising the benefits of the strong link between innovation and exporting. Even though Victoria's share of the total value of Australian goods exports is strong, less than three per cent of Victorian businesses export their goods.

An investment is needed in the 2019-20 Victorian Budget to accelerate growth in business-university collaboration and encourage a wider and deeper international engagement by Victorian firms.

Government procurement can be a powerful catalyst for creating jobs and building firm capability and innovation. The State Budget must therefore support small and medium sized Victorian businesses that are trying to get involved in government projects.

Recommendations

- > Amend current Victorian Industry Participation Policy (VIPP) to require government departments and agencies to consider competitive local suppliers, including SMEs, when awarding contracts valued at \$1 million or more in metropolitan Melbourne or for state-wide activities (compared to the current threshold of \$3 million or more).
- > Encourage large companies to work with small and medium sized businesses within their supply chain, assisting them to build new networks and business opportunities, particularly in export markets.
- > Establish a pool of PhD students and experienced professionals who can be seconded into organisations for up to 6 months to innovate and solve discrete business problems.
- > Help small businesses understand how to access government procurement opportunities, how to pre-qualify, where to find out about tenders, how to form joint ventures and facilitate introductions to key procurement officers within government agencies and lead contractors.
- > Extend the number of Victorian economic growth zones offering new and expanding businesses financial incentives for capital equipment investment, payroll tax reductions, council rate holidays, and simplified and facilitated planning processes.

⁵ The Australian Innovation System Report 2017, Australian Government, Department of Industry, Innovation and Science

6 Make our regions even stronger

Contributing more than \$76 billion to the state economy each year, Victoria's fast-growing regional economy is vital for our state's economic success.

Regional performance has been buoyed by strong population growth. It has also reflected strong growth in tourism, construction and health and education services as local economies continue to diversify.

The solid regional population growth has stimulated economic growth and jobs, and reduced growth pressure and congestion in metropolitan Melbourne. However, it has also brought new challenges.

Growth has been concentrated in and around larger regional cities close to Melbourne. Unfortunately, some smaller regional towns have not shared the benefits of strong population growth and are struggling in the face of business closures, industry restructuring, ageing workforces and tiring infrastructure.

Similarly, although an increasing number of young people have moved to Victoria's regions, youth unemployment remains as high as 17 per cent in some regional centres.

Renewed efforts are needed to support business capacity building in high risk towns, close skills gaps and strengthen employment outcomes for local job seekers, including apprentices and trainees.

The 2019-20 Victorian Budget should address these challenges by broadening the policy approach, from not only promoting regional growth, but managing regional growth.

Recommendations

- > Develop a comprehensive decentralisation plan to manage population growth in regional cities and towns incorporating:
 - Further relocation of key government departments and agencies
 - Tax incentives to drive regional investment and business growth
 - Transport, health and education infrastructure upgrades
 - A significant marketing campaign to attract business and workers to regional locations.
- > Strengthen Invest Victoria's focus on regional Victoria.
- > Commit to eradicating all mobile blackspots and improve Wi-Fi services on V/Line trains by working with communication network providers to fast-track mobile tower construction.
- > Amend current Victorian Industry Participation Policy (VIPP) to require Government departments and agencies to consider competitive local suppliers, including SMEs, when awarding contracts valued at \$500,000 or more in regional Victoria (compared to the current threshold of \$1 million or more).

Concluding comments

Victorian business has benefited from several Andrews Government initiatives over the past year, including:

- > Continuing responsible economic and financial management.
- > Strong jobs growth.
- > A lowering in the payroll tax burden on regional business.
- > Significant investment in major infrastructure projects.
- > Further investment in the state's education and training sector.
- > New initiatives to build opportunities for small and medium firms on government projects.
- > Additional resourcing to keep Victorian communities safe.
- > Measures to make regional cities and towns stronger and more sustainable.

Many of these outcomes reflect the influence of the Victorian Chamber's advocacy on behalf of members, customers and clients. They are good for business and good for Victoria.

The 2019-20 Victoria Budget provides the opportunity to build on this work with pro-business policies that underpin future economic activity, investment and job creation.

Success will be contingent on:

- > Keeping Victoria competitive by continuing responsible economic and financial management.
- > Lowering business costs associated with state taxes and regulations.
- > Continuing investment in the state's infrastructure base, especially productivity building and trade-facilitation projects.
- > New investment in education and training, including measures to boost apprenticeships.
- > Supporting business innovation and the knowledge and capability to expand into international markets.
- > Ensuring Victoria's regions continue to share the benefits of Victoria's strong population growth.

By implementing the recommendations contained in the Victorian Chamber's submission the Victorian Government will accelerate economic growth, improve liveability, secure new investment and create more jobs in 2019 and beyond.



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