



Victorian  
Chamber of Commerce  
and Industry

2018-2019

**STATE BUDGET SUBMISSION**



## The Victorian Chamber's 2018-2019 State Budget Priorities

### Keep Victoria Competitive

Keep public sector wages in line with private sector benchmarks.

Fund key infrastructure investments by allowing net debt to be increased, consistent with a AAA credit rating.

Ensure Victorian total tax revenue as a share of gross state product is kept at or below the national average.

### Lower Energy Costs

Lift the moratorium on onshore conventional gas exploration.

Extend assistance to smaller energy intensive businesses impacted by rising energy prices.

Provide funding or low cost loans for energy intensive businesses to undertake capital upgrades to reduce their energy use.

### Strengthen Liveability and Grow the Visitor Economy

Fund the commencement of construction for the North East Link.

Maintain a commitment to build a dedicated rail link to Melbourne Airport.

Increase funding to the Melbourne Convention Bureau to enhance its capability to attract more international conventions and conferences to Melbourne.

### Boost Small Business and Grow Jobs

Increase the payroll tax threshold to \$850,000 from 1 July 2019.

Repeal the Grand Final eve Public holiday. Do not proceed with plans to make Christmas Day a public holiday when it falls on a weekend.

Reintroduce payroll tax exemptions for eligible new trainees and apprentices.

### Enhance Regional Victoria

Provide a 25 per cent discount on land transfer duty applying to commercial properties located in regional Victoria.

Amend Victorian Industry Participation Policy (VIPPP) to require government departments and agencies to consider local SME suppliers when awarding contracts valued at \$500,000 or more in regional Victoria.

Undertake an independent review of the licenses, registrations, certifications, permits or approvals impacting on regional businesses.



*Many of the policy initiatives undertaken or committed to by the Andrews Labor Government over the past three years are consistent with the Victorian Chamber's advocacy.*

## Key messages

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Victoria is performing well. The State's finances are in good shape. A significant pipeline of infrastructure investment is underway.

The State and its regions has benefited from strong population growth and a resilient, increasingly diverse economy.

A lower exchange rate is supporting exports, especially from our important agribusiness and advanced manufacturing industries.

Low interest rates are spurring private sector investment.

International education continues to generate significant economic activity and employment across the State.

Direct business costs have been eased by increases to the payroll tax threshold and a cut to the regional payroll tax rate.

The 2018-19 State Budget must capitalise on these strengths and make the most of emerging industries and markets.

It must also take a long term view of economic development that aligns all arms of economic and industry policy to meet the challenges of:

- > Escalating energy prices, which are damaging industry competitiveness.
- > Rapid population growth, which is stretching the limits of our existing infrastructure and increasing pressure on resources and services.
- > Unremitting increases in international competition. Despite significant opportunities in the fast growing Asia region, SME international engagement levels are low.
- > Growing economic disparity between different regional areas and industries.
- > Structural changes which pose employment challenges, especially among low skilled and young Victorians.

With the right policy setting in place, the 2018-19 Victorian Budget can make good headway meeting these challenges. Victorian business is therefore looking to the Victorian Government to use the Budget to:

- 1. Keep Victoria Competitive**
- 2. Lower Energy Costs**
- 3. Strengthen Liveability and Grow the Visitor Economy**
- 4. Boost Small Business and Grow Jobs.**
- 5. Enhance Regional Victoria**

The recommendations contained in our submission are designed to meet these objectives.

They have been shaped and informed by member input, including participation in the Victorian Chamber's 2017 Victoria Summit and our significant program of policy work and Taskforces covering:

- > Transport.
- > Agribusiness.
- > International Engagement.
- > Vocational education and training.
- > Higher education.
- > Regional development.
- > Small business.

The Victorian Chamber's recommendations encompasses actions that will benefit business and the wider community by raising productivity, improving liveability and strengthening prospects for new investment, trade and jobs.

With a strong base to build on, now is the time for action that keeps Victoria strong and growing.



Mark Stone AM  
Chief Executive



## 1. Keep Victoria Competitive

The Victorian economy is performing strongly, having grown by 3.3 per cent in 2016-17 driven by strong consumption, government infrastructure investment, exports and housing investment.

Economic growth has picked up significantly since 2014 and continues to be supported by a lower exchange rate, low interest rates and stronger global growth which are creating favourable conditions for both businesses and consumers. While the 2017-18 Budget Update forecasts robust economic growth to continue over the next four years, continued sound economic management will be required to ensure these forecasts can be achieved.

Victoria's population growth continues to lead the nation at 2.3 per cent in 2016-17 and is expected to remain above the Australian average as Victoria attracts a high share of migrants from interstate and overseas. With this growth comes challenges as an increased population places pressure on infrastructure and services.

Victorian labour market conditions are improving steadily, with unemployment recently falling to 5.7 per cent, the second lowest in Australia and forecast to fall further. However, youth unemployment remains a concern, particularly in a number of regional areas. Strong headline employment figures also mask high levels of underemployment.

Importantly, the 2017-18 Budget Update demonstrates a commitment to responsible fiscal management with operating surpluses forecast to total \$8.4 billion over four years and net debt reaching a sustainable 5.7 per cent of Gross State Product. The retention of Victoria's triple-A credit rating with a stable outlook from both major international credit rating agencies provides a firm endorsement of the State's fiscal strategy.

A key factor in achieving projected surpluses will be keeping expenditure in check. While average annual growth in expenditure (at 4.4 per cent) is not projected to exceed growth in revenues (4.5 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 (2.2 per cent in 2019-20).

### 2018-19 Victorian Chamber recommendations

- > Ensure Victorian Budget forecasts for low expenditure growth over the forward estimates period are met.
- > 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 sustainable increases to net debt, consistent with a AAA credit rating.
- > 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 and a higher relative GST share for Victoria.
- > Ensure Victorian total tax revenue as a share of gross state product is kept at or below the national average.

## 2. Lower energy costs

Energy security, reliability and affordability is a priority for Victorian business and needs to be a priority in the 2018-19 Victorian Budget.

Victorian Chamber members are facing unsustainable energy price increases that are threatening their competitiveness and, in some cases, their ongoing operation.

Rising gas prices are being driven by significant exports of natural gas out of Queensland that are placing pressure on the supply of gas for local markets.

Electricity prices are being pushed up by the lack of investment in new electricity supply, the closure of a number of large coal fired generators, including Victoria's Hazelwood Power Station, and the high price of gas being used to generate electricity to make up the shortfall.

Recent actions, including legislating Victorian Renewable Energy Targets, the review of retail energy markets, the expansion of assistance for business under the Victorian Energy Upgrades program, and tailored support for large energy users through Invest Victoria are welcome, however more needs to be done to ensure that Victoria has a comprehensive policy to manage rising energy prices.

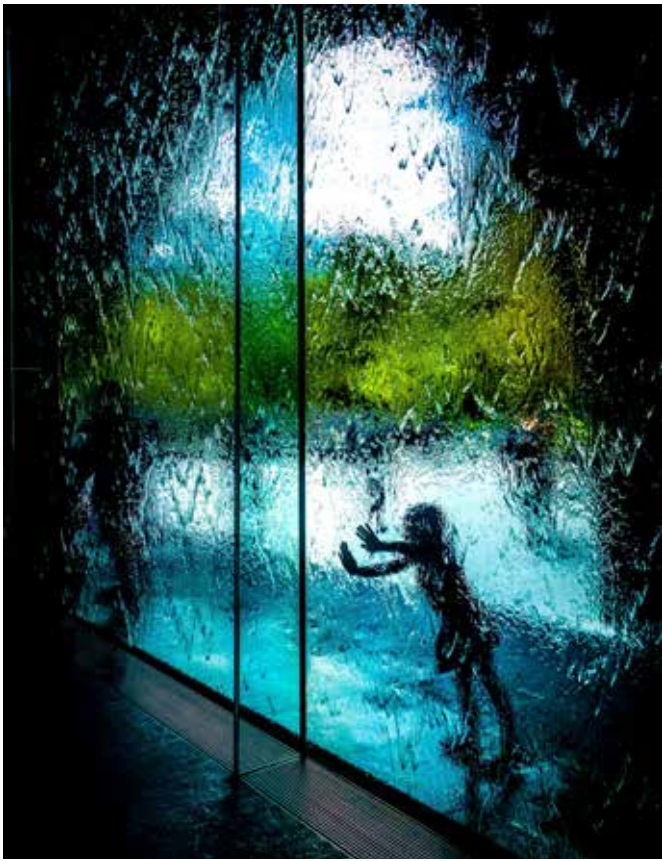
While the development of a national energy policy is critical to the medium term future of our energy supplies and markets, there are a range of steps that the State Government should take to reduce the pressure on business and support more efficient energy and resource use.

Priority actions must include more transitional support for business, an increase in energy supplies, better functioning and more transparent energy markets, and more help for business to improve their resource and energy efficiency.

### 2018-19 Victorian Chamber recommendations

- > Lift the moratorium on onshore conventional gas exploration and assess individual gas supply projects on a case by case basis.
- > Establish a \$20 million Energy Market Transition Fund as a temporary measure to retain at risk jobs and businesses during the current period of energy market restructuring. Funding would be available to businesses that are energy intensive (Energy costs above 7 per cent of turnover), trade exposed and with more than 20 FTEs.
- > Provide funding or low cost loans for energy intensive businesses to undertake capital upgrades to reduce their energy use and improve their international competitiveness.
- > Provide a clear and affordable pathway to meet Victoria's Renewable Energy Target of 40 per cent by 2025.
- > Work with the Victorian Chamber to provide tailored, subsidised access to energy specialists that can help businesses to:
  - Undertake energy audits to identify opportunities for savings.
  - Deliver energy upgrades.
  - Explore opportunities for investment in new energy technologies such as solar, co-generation and battery storage.
  - Find the best deal on energy.
  - Access available government support to implement energy efficiency upgrades.
  - Switch to cheaper fuels.





### 3. Strengthen liveability and grow the visitor economy

Our liveability strengths make Victoria an attractive and internationally competitive visitor destination; while visitation adds to the vibrancy and economic life of cities and towns across the state.

Economic and business strength are critical to liveability and growth in the visitor economy. The important connection between liveability and competitiveness means policy makers must work to strengthen the many characteristics that make Victoria a great place to live, work and visit by responsibly managing our finances and continuing to invest in our human capital, infrastructure, services and natural assets.

The good news is that we have a strong base to work on. Melbourne is known as one of the world's most liveable cities, while our regions showcase natural beauty, fresh produce and collaborative communities. International visitation has been growing strongly, our major events calendar is the envy of the world and we are attracting world-leading business events and conferences.

The challenge is to continue this momentum and build further success. Victoria is currently growing faster than any other Australian state with projections showing that our population is likely to double in just 30 years. The number of international visitors to Victoria will nearly double in the next seven years.

We must ensure we are prepared to meet and service this growth. To do this, we must continue to link our liveability,

tourism and events strengths and broader industry expertise. Our hard and soft infrastructure must keep pace with the growth in demand, while our natural assets must be preserved and enhanced. Tourism growth must focus on building visitor yield (measured by average visitor expenditure), regional dispersal and visitation in off-peak periods.

Priority actions in the 2018-19 Victorian Budget must therefore include specific measures to improve our transport infrastructure, attract business conferences and events, grow regional visitation, and ensure our tourism operators are prepared for the growth ahead.

#### 2018-19 Victorian Chamber recommendations

- > Fund the commencement of construction for the North East Link.
- > Maintain a commitment to build a dedicated rail link to Melbourne Airport.
- > Implement an online learning program to make Victorian tourism and events businesses 'Asia ready' (including information about culture, customs and language, marketing to Asian visitors and improved mobile payment methods).
- > Increase funding to the Melbourne Convention Bureau to enhance its capability to attract more international conventions and conferences to Melbourne.
- > Double the size of the Regional Events Fund to better support year-round visitation to regional Victoria to deliver increased visitor nights and yield, with a particular focus on achieving growth in off-peak periods.
- > Fund Stage 2 of the Shipwreck Coast Masterplan.
- > Make all public transport concessions available to international students on the same basis as local students.



## 4. Boost small business and grow jobs

Victoria's small business sector is the foundation of our State's competitiveness. It is a diverse and vibrant sector that generates significant employment, investment and trade.

The challenge is to continue small business and jobs growth into 2018 and beyond.

This will not be easy. Each small business has distinctive needs and a different vision of what success looks like. This means they face unique challenges in growing their operations and workforces.

Despite recent relief, payroll tax continues to be a key barrier for small businesses taking on additional staff. We need to provide meaningful incentives for employers to grow their business operations and expand their workforces within Victoria.

A well-trained workforce is critical for small business growth. Apprenticeships and traineeships are critical pathways for many young people to enter the labour market and secure their first job. However, since 2012 when government incentives were significantly cut, the number of people in this type of training has halved.

When we look at how many businesses are taking advantage of international trade opportunities, only seven per cent of very small businesses export their goods and services overseas. Many don't have all the skills they need to make the most of these international trade opportunities.

We know innovation and collaboration are some of the essential tools of boosting productivity and business growth. But small businesses are lagging behind in the innovation race. Many lack the time, resources and expertise to identify and implement new products and processes.

It is for these reasons our submission makes a series of recommendations designed to lower business costs, increase small business international engagement, improve the take-up of apprentices and trainees, and increase small business connectivity, competitiveness and innovation.



### 2018-19 Victorian Chamber recommendations

- > Increase the payroll tax threshold to \$850,000 from 1 July 2019.
- > Reintroduce payroll tax exemptions for eligible new trainees and apprentices, as currently exists in NSW, QLD, TAS and WA.
- > Repeal the Grand Final eve public holiday and do not proceed with plans to make Christmas Day a public holiday when it falls on a weekend.
- > Deliver an 'Export Ready' program for all businesses participating in a government funded trade mission. The program will include pre and post-mission support to build longer term, trusted business relationships.
- > Make the following sectors priorities for regulation review and undertake these concurrently:
  - Agribusiness
  - Transport and logistics
  - International education
- > Support the Victorian Chamber to work with Victoria's larger companies and help their supply chain businesses develop new export opportunities.

## 5. Enhance regional Victoria

The 2018-19 Victorian Budget must make accelerated regional economic, investment and employment growth a priority.

Victoria's regions have done well to adjust to new challenges and opportunities over the past decade. They have demonstrated resilience in the face of changing economic circumstances.

Most of the State's regions have experienced overall positive growth in employment. Many have successfully expanded into new markets at home and abroad. Local economies continue to diversify.

The potential for further economic growth is strong. Regional populations are growing and regional liveability is high.

The agribusiness sector has been experiencing strong growth and is on the cusp of even further opportunity as its engagement with Asia grows. Regional tourism is an important industry and there are further opportunities to tap into the growth of the Asian middle class and their rising disposable incomes.

Regional small businesses remain at the heart of employment in their communities.

However, further growth cannot be taken for granted. Pressures working against Victoria's regional interests are mounting. Economic and employment growth rates differ between geographic locations.

Regional populations are ageing and service demands are rising. Rising energy prices are reducing regional industry competitiveness. The quality of physical and social infrastructure varies widely across regions.

Meeting these challenges and securing sustainable regional growth will require all arms of economic management to be focused on growing new competitive opportunities across the State.

Priority actions in the 2018-19 Victorian Budget must include measures to lower regional business costs, improve regional infrastructure, strengthen regional education and training outcomes and foster regional trade and investment.



### 2018-19 Victorian Chamber recommendations

- > Provide a 25 per cent discount on land transfer duty applying to commercial properties located in regional Victoria. This will encourage businesses to set up or relocate their businesses in regional areas.
- > Undertake an independent review of the licences, registrations, certifications, permits or approvals impacting on regional business. Significantly reduce their number, scope and complexity.
- > 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).
- > Extend the Back to Work scheme to other regional areas characterised by high youth unemployment and/or industries undergoing transition (e.g. Shepparton, Wangaratta, Wodonga and Warrnambool).
- > Further decentralise key state government departments or agencies to regional locations and implement a 5-10 year reform timetable.
- > Fund a dedicated communication campaign to attract young talent and improve the image of apprenticeships in priority regional industries, including emerging growth sectors (e.g. new energy technologies, agribusiness, education and health services).
- > Double the Victorian Government's financial co-contribution to the Federal Government's Mobile Black Spot Program, including monies for new and upgraded mobile base stations.



## Concluding comments

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Victoria is performing well. It needs to continue to do so in 2018 and beyond.

Prospects for further growth are strong. The State's financial position is healthy. A significant pipeline of infrastructure projects are on the horizon.

The State's education and training system continues to transform, improving quality and better aligning training outcomes with industry needs.

Our international education, tourism and events industries make Victoria a great place to study, visit and do business. 'Liveability' is high.

Victoria's regions are playing their part in helping absorb Victoria's fast growing population, creating new employment and investment opportunities.

Small business remains as important as ever as the engine of growth and innovation.

However, headwinds to growth are also mounting. Economic activity is uneven across different industries and different parts of the State.

Structural change is creating employment challenges, with low-skilled, young and regional Victorians particularly exposed.

Energy prices are rising steeply and are unlikely to subside in the short term.

International competition is intensifying.

These challenges demand, and deserve, a serious response from the Victorian Government which must use the 2018-19 Victorian Budget to:

- > Continue responsible economic and financial management.
- > Accelerate small business and growing jobs.
- > Improve energy security, reliability and affordability.
- > Strengthen Victoria's liveability and visitor economy performance.
- > Meet the diverse and growing needs of Victoria's regions.

By adopting the recommendations contained in our submission, the 2018-19 Victorian Budget will keep Victoria strong and growing.









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