



# Cost and ease of doing business in Victoria

Victorian Chamber of Commerce and Industry

17 January 2022



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Paul Guerra  
**Chief Executive**

## Foreword

The Victorian Chamber of Commerce and Industry (VCCI) works to champion the interests of business by advocating for opportunities to streamline processes and minimise barriers to improve economic outcomes for the betterment of Victoria and Victorian businesses. VCCI identified that understanding the true cost of doing business is a significant issue preventing discourse to develop sound policy. Indeed, understanding the costs of doing business in Victoria has to date been limited primarily to anecdotal discussion and ABS data. As a consequence, VCCI commissioned Nous Group (Nous) to develop a novel and comprehensive ranking methodology to compare Victoria with other states and territories across 23 different cost metrics. This was supported by a substantive survey of VCCI members that ensured a sufficient sample size to extrapolate the data.

A series of roundtables with members were held to forensically examine and test the results of the ranking methodology and the survey data. This has resulted in the most comprehensive evaluation and detailed understanding of the costs impacting businesses in Victoria to date. The primary findings show that time is almost as comparable an impediment to doing business in Victoria as the monetary toll. As such, VCCI will continue to advocate for governments to reduce the administrative burden that businesses face, while also innovating the tax system in Victoria.

Importantly, this report and the recommendations focused equally on metropolitan Melbourne and regional Victoria, acknowledging that there is substantial capacity for growth and development in Victoria's regions with the right administrative and tax settings. The recommendations below are broad and are the consequence of engagement with our members. We will seek to work with governments to see these recommendations to fruition and continue to look at how improvements can be made over time. We will also review the rankings each year to see where Victoria has improved.

I would like to acknowledge the work of the Co-Chairs of the Taskforce Adrian Kloeden, Deputy President of VCCI, and Kate Mannix, Regional Chairperson-Bendigo, who provided significant guidance and context, and assisted with the roundtables. There is no question the leadership provided from Adrian and Kate for this report and the associated recommendations has enabled the report to as insightful and detailed as it is. Finally, I would like to thank the VCCI Policy Team for the overall stewardship of the report.

## VCCI will work with government to act on the opportunities presented in this report.

This policy paper is comprised of two sections and two appendices. The first section contains VCCI's response to Nous' report findings and recommendations for government. The recommendations for government were developed using a framework (see Figure 1) for designing pragmatic policy options that for governments to adopt. The second section contains the Nous report on costs and ease of doing business, which was developed in conjunction with VCCI and its members. Appendix A contains the cost and ease ranking methodology, with information on each of the 23 metrics across six key themes. Appendix B contains the survey results from over 700 VCCI members which captured their experience with the costs of doing business in Victoria.

**The Victorian economy relies on the private sector for economic growth and employment. A successful private sector will help to ensure the prosperity of all of Victoria.**

The Cost and Ease of Doing Business in Victoria report (the report) shows that the balance of risk for the private sector has shifted to become more negative in recent years and that this is impacting the attractiveness of Victoria as a place to do business. Victoria has some clear advantages, but on balance it is a higher cost jurisdiction. Some of the costs described in this report may require significant policy focus over an extended period because they pose real structural challenges. These challenges are further magnified for Victoria in the context of short-term disruption due to COVID-19.

The private sector comprises 86 per cent of Victoria's economy and employment.<sup>1</sup> The Victorian government must continue to work closely with business leaders to make it easier to attract investment, as the public sector alone will not create the employment and opportunities needed in the state. There is much work to do. Findings from this report show that only 7 per cent of Victorian businesses believe the government is doing a good job in reducing the cost of doing business in Victoria, while 55 per cent of businesses that also operate elsewhere believe it is harder or much harder to do business in Victoria.

**There is an opportunity for government and business to work together more closely in addressing the most important costs of doing business in Victoria.**

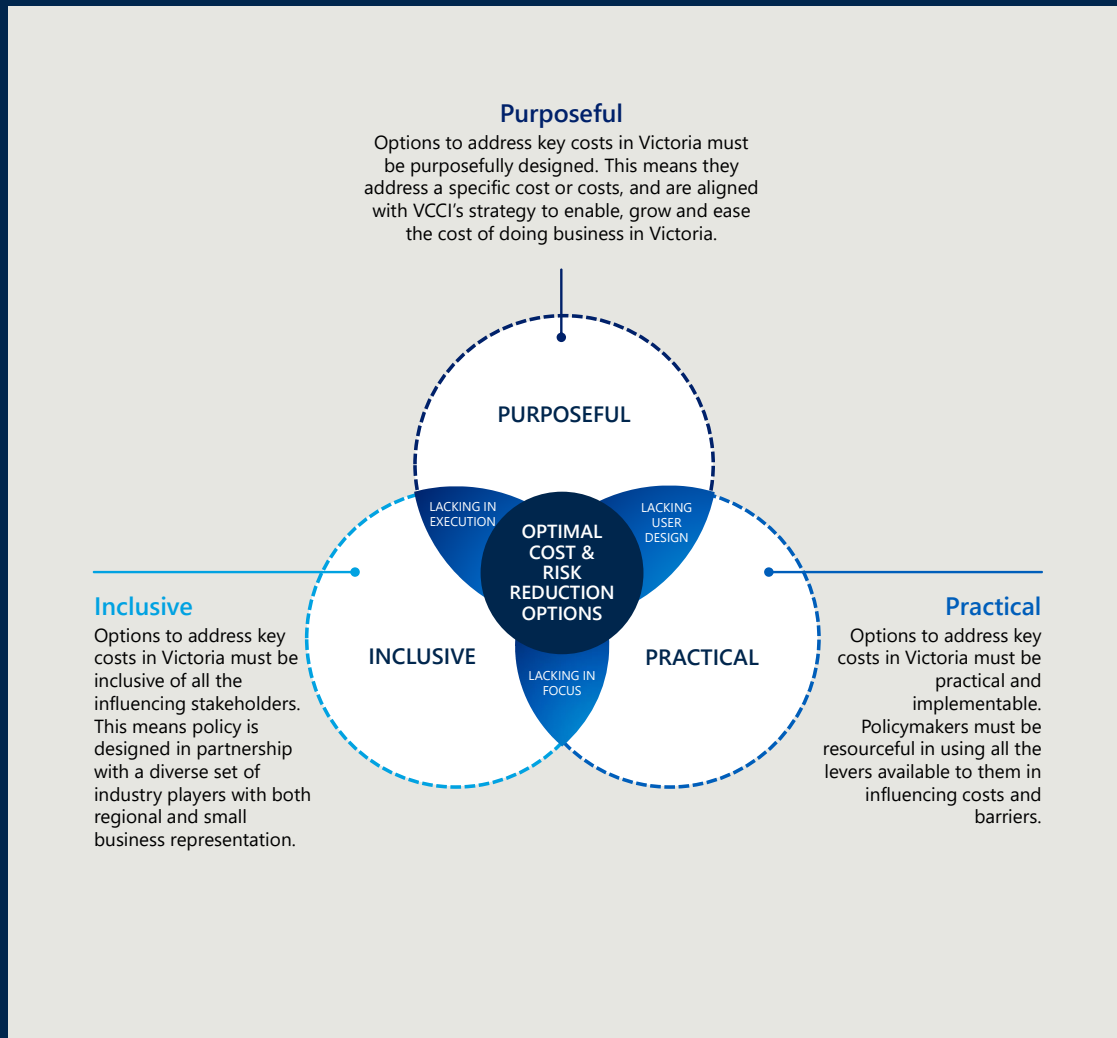
Determining which policy options will be the most effective in addressing the key costs presented in this report requires a close partnership between government and industry. VCCI can play a key role in facilitating this partnership by drawing on deep connections in both the public and private sector.

When seeking to reduce cost and risk for business in Victoria, policy makers must aim for policy interventions that are purposeful, inclusive and practical options (see Figure 1). Policy options that strike the balance between these three objectives will be most effective. If a policy intervention only considers one or two of these objectives, it will result in outcomes that lack in execution, focus, or user design. Ensuring any policy option meets all three objectives will ensure that Victorian businesses receive the best possible value for the tax they pay.

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<sup>1</sup> Australian Bureau of Statistics, Employed persons by state, Territory and Sector (public/private) of main job, Labour force, Australia, Detailed, Table 26a., May 2021.

Figure 1 | A framework for designing policy options to address key business costs and risk in Victoria



## VCCI has developed eight recommendations for addressing the costs of doing business in Victoria.

The below pragmatic policy options are recommended to government as a key step in lowering the cost of doing business in Victoria. These recommendations have been developed in line with Figure 1 to be purposeful, inclusive, and practical. The recommendations have been reviewed by the VCCI Taskforce Secretariat in addition to discussion with our members. They are also informed by survey responses from our members and the feedback from our members in workshops facilitated by Nous as part of the development of the report.

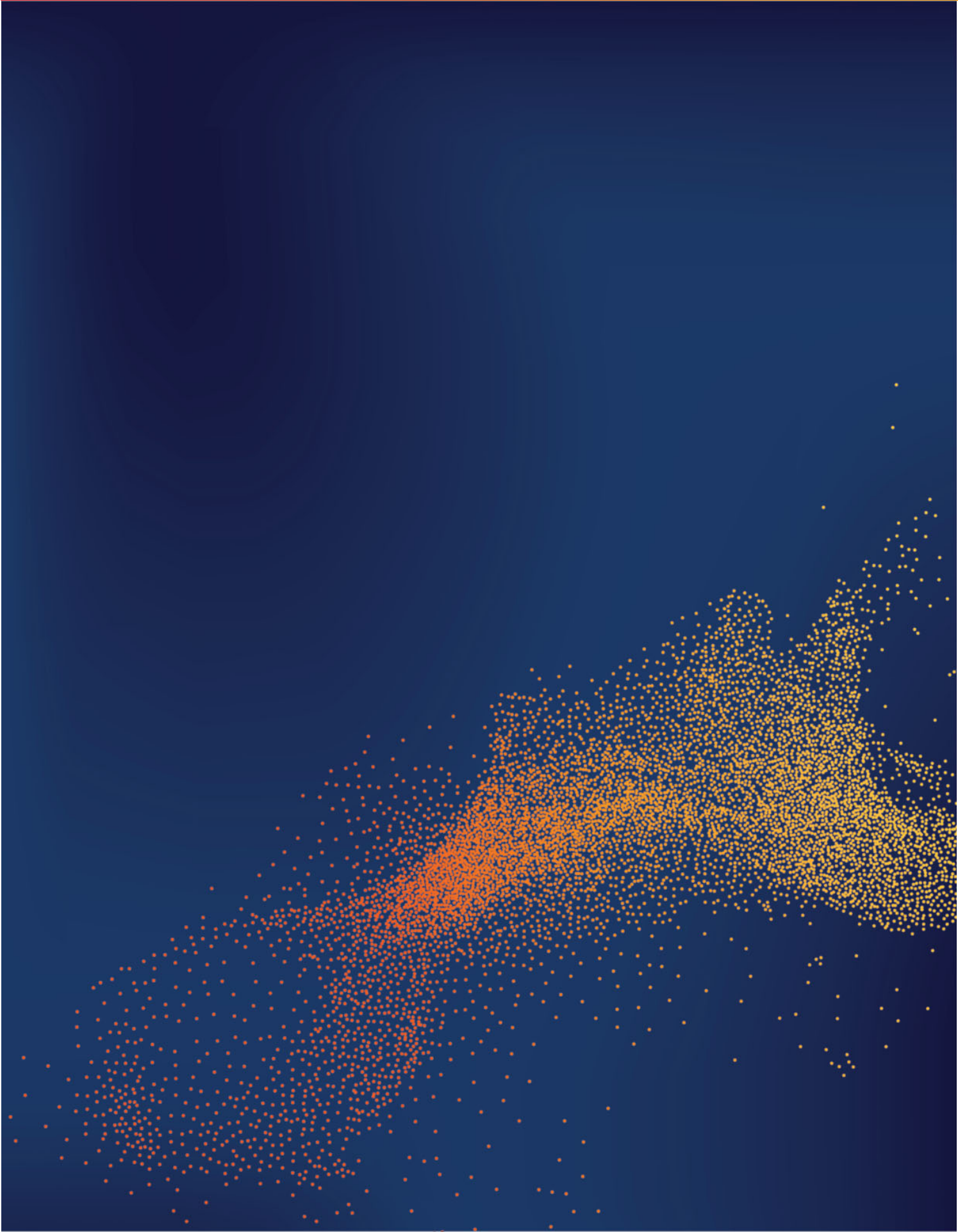
An ongoing consultation process with government and our members will mean VCCI is able to revisit and recommend improvements to these policy options to ensure that they remain relevant and effective. Similarly, the rankings presented in this report will allow VCCI and the government to monitor how the conditions for doing business in Victoria are changing in response to change in policy settings.

1. **Develop a business concierge to streamline the experience for business at the interface of government and industry.** This will create a 'tell us once' and 'no wrong door' experience for business and will avoid the need for business to act as the middleperson to resolve conflicting advice from different regulators or agencies. The concierge will be able to hold regulators to account in making sure that they meet their statutory deadlines. This will decrease the time businesses spend engaging with government, so that they can get on with being productive and contributing to economic growth and providing employment opportunities. The Better Regulation Commissioner is the logical place for the concierge, as, in addition to their current statutory requirement to review legislation, they will be able to monitor whether regulation is fit for purpose.
2. **Conduct a 'root and branch' review of the Victorian tax system with the aim of optimising state revenue collection to deal with the costs facing Victorian businesses, while also making Victoria the lowest taxing jurisdiction for business in Australia.** This should be done over the medium to long term, acknowledging the need to not shock the revenue base. Over the short term there could be a shift in the burden of taxation from smaller businesses. Structural changes such as switching from stamp duty to a broad-based property tax should be considered, as should adjusting the payroll tax system from a singular threshold to a proportional threshold.

3. **Fast-track government approvals, grants and programs to get business back in business, and to address the backlog of projects delayed due to COVID-19.** VCCI recommendations investigating the small changes to processing that could have a dramatic impact on the success and growth of business emerging from the COVID-19 pandemic. There is work already underway to improve government interactions with Victorians through the Regulation Reform Incentive Fund<sup>2</sup>. This is a step in the right direction towards improving government service levels and addressing the time costs for Victorian businesses in dealing with government. However, there is capacity for this to be sped up and it would be aided by implementing a business concierge (see recommendation 1). In the short term there should be a focus on helping to approve developments in regional Victoria, where many councils lack either the capacity or capability to provide approvals in a timely manner.
4. **Continue to enhance and evolve the culture of the public sector and of local government in engaging with business, so that it has a business enabling and proactive mindset.** This should be addressed by investing in training for all staff that are in a regulatory or approving role. Hiring from industry to fill these government roles will further help to improve the experience for businesses by encouraging a customer-centric mindset.
5. **Create a permanent forum or working group for a diverse set of industry stakeholders to provide early input into policy design and delivery.** A diverse set of perspectives – including small business and regional stakeholders – is important. Quick establishment of a working group will ensure that business has a voice in designing the pathway to recovery from COVID-19.
6. **Expand the facilitation role of Invest Victoria to have a greater focus on boosting the success of small business and regional industry.** This should be a priority in the short term and solidified over the long term so that regional Victoria is able to take full advantage of economic opportunities. This should include requirements to address regional Victoria challenges (for example, with social infrastructure, worker accommodation and labour attraction). It should also ensure that any capability or capacity limitations that rural and regional councils may have, are addressed through support from the state government.
7. **Build on the partnership between VCCI and the Victorian Skills Authority to help address the rising skill mismatch challenge in the state, particularly in vocational education and in regional areas.** Short term solutions are not enough. There must be consideration given to the changing nature of industry in Victoria and what this means for the supply of skills and labour in the medium to long term.
8. **Seek out opportunities for government to partner with the private sector in delivering key services where appropriate.** VCCI is uniquely placed to enable a ‘business helping business’ approach. Government might not always be well positioned or resourced to deliver on industry needs such as mental health support and mentoring programs. Importantly, business trust the VCCI brand and the brands of other industry groups and businesses and will be more inclined to utilise services provided if not coming directly from government.

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<sup>2</sup> Jenkins, S., Supporting Economic Recovery Through Regulation Reform, The National Tribune, April 2021. [\[Link\]](#)





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## Executive summary

**A robust assessment of the cost and ease of doing business in Victoria provides VCCI with greater clarity on where to focus policy efforts.**

This Cost and Ease of Doing Business in Victoria Report (the report) provides a new evidence base for VCCI to address the costs facing current and prospective Victorian businesses. The evidence informs the targeted and practical policy recommendations presented by VCCI in the Foreword of this report. Some of these recommendations will have a revenue impact for government, but there are also several recommendations that have minimal or no revenue impact for government but still result in a decrease in the cost of doing business in Victoria.

This report captures a broad range of costs that have not typically been measured. The evidence goes beyond the profit and loss of business and considers both direct and intangible costs to give a more complete understanding of the cost of doing business in Victoria. The report addresses a lack of robust comparisons of the cost and ease of doing business at the state and territory level in Australia. Finally, its focus is the medium to long-term costs of doing business, not just on short-term costs resulting from the COVID-19 pandemic.

Building a comprehensive view of the costs and barriers to doing business in Victoria requires triangulating evidence across different sources. Both qualitative and quantitative data have been used in building the evidence base for the report, including the cost and ease ranking of 23 cross-jurisdictional metrics; surveying over 700 Victorian business for their perspective; and reviewing the literature and

publicly available data. Key findings from this report have been workshopped with members of the VCCI Taskforce at key stages of development to ensure they reflect the lived experience of industry.

**There are six key findings on the cost and ease of doing business in Victoria.**

Doing business in Victoria is harder than it needs to be – not just financially, but in terms of time demands and stress. Nearly 40 per cent of Victorian businesses say time is a bigger cost to doing business than money. This shows that some aspects of government regulations and approach to regulation are cumbersome and poorly administered. Pressures on business owners are particularly acute in parts of regional Victoria. Importantly, the most significant costs faced by Victorian businesses were present well before March 2020 and are likely to persist well beyond the COVID-19 recovery.

The six key findings from this report are presented below.

1. Victoria has a productivity challenge that started well before the pandemic. Productivity growth measured in gross state product (GSP) per hour worked has been slowing in Victoria over the last 10 years.
2. Victoria has some clear advantages relative to other jurisdictions, but on balance it is a higher cost jurisdiction. Victoria's population is highly educated with 39 per cent holding a bachelor's degree or higher. The state is a hub for entrepreneurship and innovation which is supported by a large consumer market and good infrastructure connectivity. However, Victoria is also one of the most taxed (state and local) jurisdictions in the country.
3. The intangible costs of doing business are building up. Nearly 40 per cent of Victorian businesses surveyed for this report said time was a bigger cost to doing business than money. Only 21 per cent of Victorian business owners feel supported in managing their mental health and wellbeing. Victoria's reputation as a leading place to work and live is also at risk.
4. Victorian businesses do not feel that they are getting appropriate value from the tax they pay. Many Victorian businesses feel that government services are not delivered optimally. Over 80 per cent of survey respondents say that the culture of government regulators is a barrier to doing business.
5. Victoria's relative strength in skills and labour does not reflect the acute challenges experienced by some businesses. Despite a highly educated workforce, 83 per cent of Victorian businesses say that accessing skills and labour is a challenge particularly in entry-level and vocational positions. Regional Victoria is the hardest hit. The labour market is also changing, which brings with it new costs for business to manage.
6. Businesses are operating under greater investment uncertainty on multiple fronts. Uncertainty or instability in government policy direction is a top risk for 45 per cent of survey respondents. This policy uncertainty is a real risk for Victorian business investment. The regulatory environment beyond COVID-19 is not fully understood yet either.





## Purpose

Nous has developed this report, with support from VCCI, to provide VCCI with a new evidence base to help make Victoria a more attractive place to do business in Australia.

VCCI works to champion business and community interests by influencing government through several ways, including policy and advocacy and partnerships to benefit its 47,000 members.<sup>3</sup> A robust assessment of the cost and ease of doing business in Victoria is important because it gives VCCI greater clarity of potential policy solutions.

This report identifies the costs and barriers that matter most to Victorian business, with a particular focus on those that are feasible. Many of the costs discussed in this report can be influenced by a combination of powers at the local, state and Australian Government level. VCCI can draw on this new evidence base to prioritise policy development efforts that most effectively lower the cost of doing business in Victoria with the least cost to government. It is expected that governments at all levels will be fiscally constrained over the COVID-19 recovery period, so widespread tax relief may be unaffordable in the short term.

In response to the findings presented in this report, VCCI has provided practical recommendations for government to address the costs and barriers faced by VCCI members (see Foreword). These recommendations will form part of VCCI's ongoing advocacy for Victorian businesses, those considering setting up a business in Victoria, and the business community more generally.

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<sup>3</sup> Victorian Chamber of Commerce and Industry, About us, What we do, accessed at: [Link](#)

**This report addresses a gap in evidence to support comparisons of the cost and ease of doing business at the state and territory level in Australia.**

There are many well-established indices and rankings that compare the cost and ease of doing business at the international level. Some of the most popular include the World Bank *Doing Business*<sup>4</sup> report and the World Economic Forum *Global Competitiveness Report*.<sup>5</sup> Australia was ranked 14<sup>th</sup> out of 190 countries in the 2020 World Bank Ease of Doing Business rankings. There are also some indices provided at the city level for major locations in reports such as IESE Business School's *Cities in Motion Index*.<sup>6</sup> Melbourne was ranked 37<sup>th</sup> out of 174 cities in the 2020 Cities in Motion Index. However, there is a gap in meaningful indices or rankings at the state and territory level in Australia. This makes it difficult to compare Victoria with other states and territories to determine why it might be an easy or harder place to do business.

This report is inspired by and builds on the methodology first developed in these international rankings to create a subjective lens by which the business environment of Victoria can be judged. It provides a basis for identifying the costs and barriers for business in Victoria or thinking about setting up in Victoria. In doing so, this report also highlights the strengths and opportunities for business in Victoria.

**This report considers both direct and intangible costs to give a more complete understanding of the cost of doing business in Victoria.**

Established metrics and rankings do not always consider the hidden or intangible cost of doing business. These are the costs that may not necessarily show up as an expense in a profit and loss statement – but they can deter investment and constrain growth, nonetheless. Examples of intangible costs can include time, energy, delays, frustrations and uncertainties. Explicit costs are important, but the intangible costs that work against business owners and operators are too often overlooked.

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<sup>4</sup> World Bank, Doing Business Report, 2020. [\[Link\]](#)

<sup>5</sup> World Economic Forum, Global Competitiveness Report 2020, 2020. [\[Link\]](#)

<sup>6</sup> IESE Business School, Cities in Motion Index, University of Navarra, 2020. [\[Link\]](#)

# Approach to identifying the costs and barriers

**Building a comprehensive view of the costs and barriers to doing business in Victoria requires triangulating evidence across different sources.**

This report draws on both qualitative and quantitative data across three key sources to triangulate evidence and insight:

1. a unique ranking methodology to compare Victoria with other states and territories by aggregating across 23 different metrics
2. a survey of over 700 VCCI members to capture their experience of the costs and barriers to doing business in Victoria
3. a thorough review of the literature and publicly available data to further clarify Victoria's cost environment for businesses and longer-term trends.

Evidence across these three sources allows for a longer-term view of trends in the cost and ease of doing businesses, including and beyond the current COVID-19 pandemic. Many of the costs and barriers faced by business are systemic and structural in nature. Short-term options that are focused on managing the economic fallout and recovery from COVID-19, while also necessary, will not sufficiently address all the longer-term costs of doing business in Victoria.

**Findings from this report have been tested with the VCCI Taskforce on the Cost and Ease of Doing Business (the taskforce) at key stages of development.**

The taskforce has been instrumental in formulating key findings, and Nous appreciates the valuable contributions of all involved. Taskforce members that have contributed to the development of this report represent a diverse (both in industry and location) and experienced mix of Victoria's business community.

In particular, the Taskforce has helped to 'ground truth' and provide real world context for the emerging evidence. Taskforce members have helped to identify where the data and evidence fails to capture the full picture and therefore requires additional explanation. Many of the case studies presented in this report – which have been provided with the intention of 'bringing to life' the evidence – have also come from the direct experience of taskforce members and have been validated with additional desktop research.



## Ranking the relative cost of doing business in Victoria.

A novel approach to ranking the cost and ease of doing business in Victoria provides a unique perspective the state's strengths and weaknesses.

Nous' cost and ease ranking serves as a measure for Victoria's performance against other jurisdictions on key areas of business costs and opportunities. It provides a subnational perspective on doing business in Victoria. The ranking methodology and approach are inspired by popular international rankings such as the World Bank *Doing Business Report*<sup>7</sup> and the World Economic Forum *Global Competitiveness Report*.<sup>8</sup> Unlike these international rankings, the ranking presented in this report is tailored to the specific context, evidence and experience of businesses operating in Victoria – with a focus on the most meaningful indicators from the perspective of businesses.

The ranking combines 23 metrics across six key themes. Each metric draws on a range of government and non-government data sources, including the Australian Bureau of Statistics (ABS), the Australian Competition & Consumer Commission (ACCC), crowd-sourcing sites like Numbeo,<sup>9</sup> and elsewhere. Metrics are clustered around six themes that reflect a particular set of costs related to skills and labour; infrastructure and connectivity; entrepreneurship and growth; productivity and stability; affordability; and government services and tax.

The ranking avoids measures that are not influenced at the state level. For example, metrics such as monetary policy are not included because the interest rate set by the Reserve Bank of Australia applies equally to all states of Australia, so this would result in an equal rank across all jurisdictions. Metrics are standardised by adjusting for size (for example, calculated per capita), fluctuations (for example, use of a five-year average) and values are converted to z-scores to enable direct comparison across each metric and location.<sup>10</sup>

The directionality of each metric is also accounted for in the ranking, depending on how it influences the cost or ease of doing business. For example, jurisdictions with high productivity were ranked higher and jurisdictions with high taxes were ranked lower. In other words, a higher ranking consistently means a 'greater ease' or 'lower cost' of doing business. It is worth noting that all cost and ease metrics are assessed equally. There is no weighting applied when determining rankings – that is, each metric is assumed to have an equal influence on business, even though this may not be strictly true.

Performance tracking over time is made possible by updating these underlying metrics as new initiatives or policies are implemented. However, certain metrics require measurement over a longer period (for example, five-year averages for productivity and private sector expenditure on research and development) and others require updates to specific datasets (for example, the National Skills Commission survey response to employer difficulty in recruitment). Further details on the cost and ease ranking methodology are in Appendix A.

All data used is current as of October 2021. Further updates would need to account for new data releases.

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<sup>7</sup> World Bank, *Doing Business Report*, 2020. [\[Link\]](#)

<sup>8</sup> World Economic Forum, *Global Competitiveness Report 2020*, 2020. [\[Link\]](#)

<sup>9</sup> Numbeo is a crowd-sourced global database that measures cost of living information between cities and countries. Users share information to the database to create current measures on indicators such as health care, traffic, safety and pollution. Data from this website is also used by the IESE Business School in developing indicators for the Cities in Motion Index.

<sup>10</sup> A z-score, also known as a standard score, measures how many standard deviations away a raw score is (above or below, denoted by sign) from the mean of a data set. It is a representation of *how far* a particular data point is from the average value of the data set it sits within.

Nous' cost and ease ranking provides a new reference point for doing business in Victoria relative to the other seven states and territories.

The ranking reveals that Victoria has some clear advantages and weaknesses when compared with other jurisdictions. Victoria's ranking relative to other states and territories is presented in Table 1.

**Table 1 | Victoria's ranking among the eight states and territories across the six key themes**

Cost or ease theme	Victoria's ranking
Skills and labour	1
Infrastructure and connectivity	2
Entrepreneurship and growth	2
Productivity and stability	6
Affordability	6
Government services and tax	8

Table 2 overleaf lists all 23 cost and ease metrics used in the ranking and shows Victoria's rank (relative to the other seven jurisdictions) for each. This table provides a snapshot of Victoria's performance. A high ranking means 'good for business' (for example, for tax '1' means lowest, while for productivity '1' means highest).

Some key insights from the 23 metrics that underpin the overall ranking are highlighted below.

- Victoria has the most efficient trade infrastructure in the country and ranks 1<sup>st</sup> in container throughput and port multifactor productivity.
- Victoria ranks 1<sup>st</sup> in skills and labour due to skills availability and access to a highly educated workforce. However, the state also ranks 7<sup>th</sup> in vocational education and training (VET) skills.
- Victoria ranks 2<sup>nd</sup> in entrepreneurship and growth due to strong research and development (R&D), business entries and a large consumer market.
- Victoria is 3<sup>rd</sup> in stability of consumer price index (CPI) measured over the past five years.
- Victoria ranks 5<sup>th</sup> in house price to income and household disposable income which means affordability if 6<sup>th</sup> overall.
- Victoria ranks 6<sup>th</sup> in labour productivity due to low output per worker and hour worked.
- Victoria ranks 7<sup>th</sup> based on the average number of permits needed to start a business.
- Victorians pay the highest local and state tax relative to GSP, ranking 8<sup>th</sup>.

**Table 2 | Victoria's ranking among the eight states and territories across the cost and ease model metrics**

Metric	Rank
<b>Throughput at city ports.</b> Five-year average of container throughput at monitored ports in Australia's capital cities measured as annual number of containers through the port.	1
<b>Productivity at city ports.</b> Five-year average of multifactor productivity measured by the annual net ship rates (that is, crane rates multiplied by crane intensity).	1
<b>Business expenditure on R&amp;D.</b> Five-year average of business expenditure on R&D as a per centage of GSP.	2
<b>Entry rates of businesses.</b> Four-year average of new businesses as a proportion of all businesses within the state.	2
<b>Market size.</b> Proxy measure for market size using state/territory population estimates.	2
<b>Higher education measure.</b> Proportion of population with a bachelor's degree or above.	2
<b>Difficulty in recruitment.</b> Proportion of surveyed employers who cited 'applicants lacked technical skills / qualifications' as a reason for recruitment difficulty.	2
<b>Price volatility.</b> Five-year average of the absolute annual percentage change in CPI for capital cities.	3
<b>Employment stability.</b> Five-year average absolute deviation of unemployment rate from Non-Accelerating Inflation Rate of Unemployment (NAIRU).	3
<b>Pay inequality.</b> Five-year average of the weekly ordinary time earnings, measured as the gender pay gap between men and women.	3
<b>Cost of utilities.</b> Estimated average annual electricity cost for small to medium businesses.	4
<b>Housing affordability.</b> House price to income ratio measured as median sale price of houses over median personal income.	5
<b>Disposable income.</b> Average mean equivalised household disposable income per week.	5
<b>Taxation per capita.</b> The taxation per capita at state/territory and local government levels.	5
<b>Ease of mobility.</b> Crowd-sourced traffic index measure for major cities.	6
<b>Productivity per capita.</b> Five-year average of GSP over the five-year average of state/territory population estimate.	6
<b>Productivity per hour worked.</b> Five-year average of GSP over five-year average of hours worked in all jobs.	6
<b>Quality of life.</b> Crowd-sourced composite index measure for the quality of life in major cities.	7
<b>Ease of starting a business.</b> Average number of steps (for example, approvals, licenses, permits) needed to start a selection of business types.	7
<b>Productivity of key sectors.</b> Annual GSP per worker in the tourism sector.	7
<b>VET measure.</b> Proportion of population with CERT III or above but below bachelor's degree.	7
<b>Taxation per output.</b> Total taxes paid (state and local) per state/territory over GSP.	8
<b>Public sector size.</b> Five-year average of population employed in the public sector as a proportion of total employed population.	8



## Surveying Victorian business for their perspective.

Over 700 VCCI members completed a survey on the cost and ease of doing business in Victoria.

The purpose of the survey was to capture the business community perspective. The survey complements the findings from other evidence sources by providing more in-depth understanding of the costs that matter most to business.

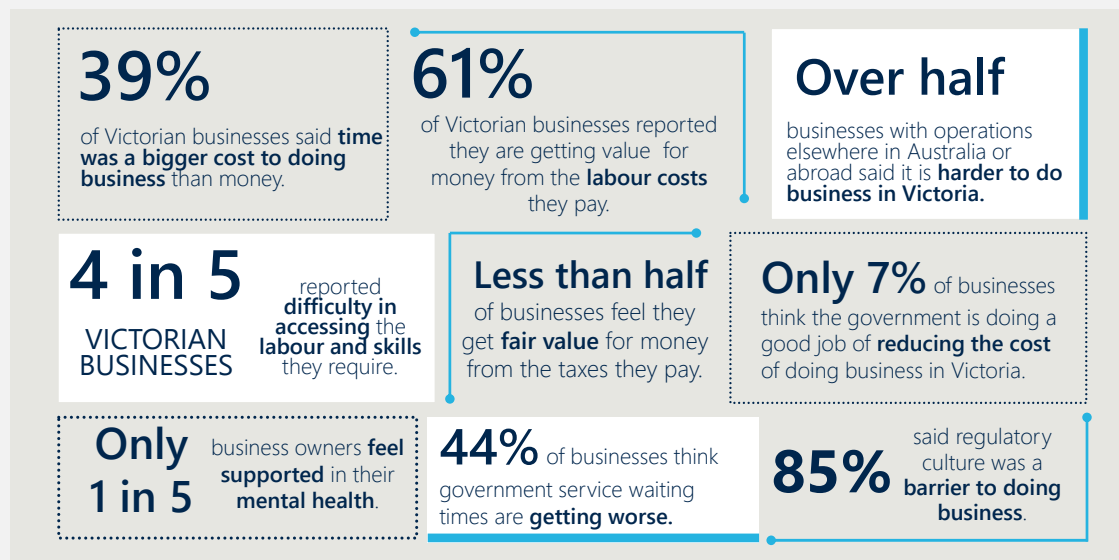
A total of 746 responses were received from businesses across 19 industries.<sup>11</sup> Responding businesses ranged from sole traders to businesses with over 200 employees. Different industries were also well represented. VCCI made the survey available to its members for just over two weeks in October 2021 via the Qualtrics platform.<sup>12</sup>



The survey provides richer insight into the costs and barriers that were not otherwise clear from other forms of data.

The survey focused on the implicit or intangible costs that Victorian businesses face. For example, businesses were asked if time or money was a bigger cost to them and if they believe they are receiving value from government services for taxes they pay. The survey findings support the broader trends in data on the costs of doing business in most cases – however, there were some examples where the survey revealed important nuance to the data. For example, Victoria ranked highly on skills and labour in the ranking of states/territories, but businesses provided a different perspective through the survey: 83 per cent of businesses reported having difficulty in accessing the skills and labour they require. Figure 2 shows some of the key insights from the survey. Further details on the survey and insights are in Appendix B.

Figure 2 | Key survey insights from Victorian businesses that responded



<sup>11</sup> The survey included 24 questions. Responses to questions ranged from n=657 to n=746. Maximum possible responses to each question have been used in determining survey results.

<sup>12</sup> The survey sample was self-selecting. Caution should be applied when in extrapolating their views to all businesses.



## Findings on the costs of doing business

### Victoria has a productivity challenge that started well before the pandemic

**Business in Victoria is still recovering from the cost of the COVID-19 pandemic.**

Victorian businesses have experienced more disruption than businesses elsewhere in Australia over the past two years.<sup>13</sup> The Australian Government first announced business restrictions in response to COVID-19 in March 2020. Since then, some parts of Victoria have endured more than 260 days of stay-at-home restrictions over the course of six lockdowns.

Specific industries such as hospitality and tourism have been hit the hardest. In the six months ending June 2020, total visitors to and within the state were 39 per cent lower than during the same period in 2019. Total visitors spend in Victoria over this period was down \$7.0 billion.<sup>14</sup> Restrictions on migration have also impacted labour mobility in many industries such as agriculture.

Victorian businesses remain focused on short-term recovery, but the evidence shows there are longer term challenges that need consideration, as well as opportunities.

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<sup>13</sup> Australian Bureau of Statistics, One year of COVID-19: Aussie jobs, business and the economy, March 2021, accessed at: [\[Link\]](#)

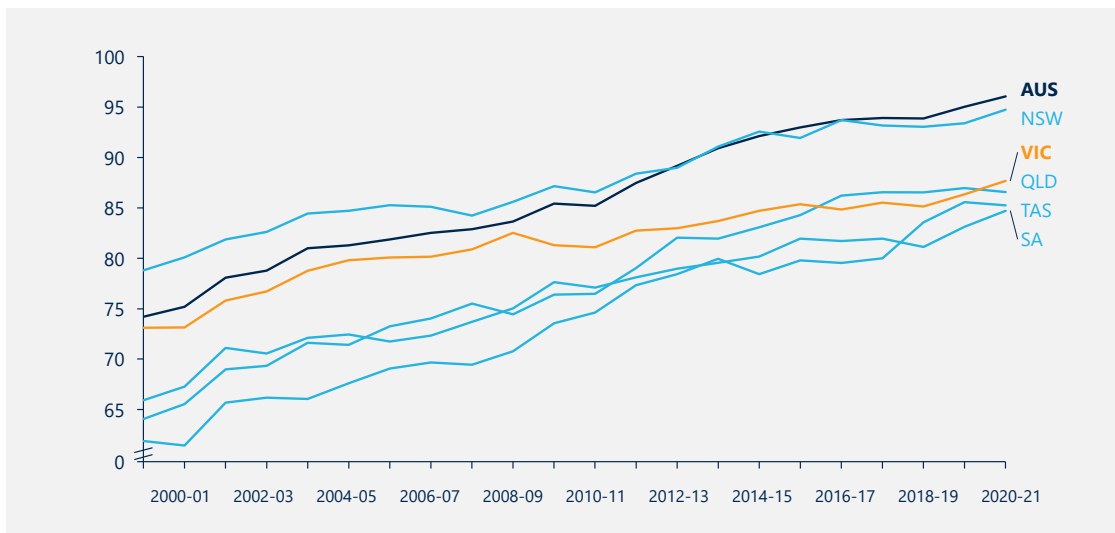
<sup>14</sup> Tourism, Events and Visitor Economy (TEVE) Research Unit, Coronavirus (COVID-19) impact on Victoria's Visitor Economy, April 2021, accessed at: [\[Link\]](#)

Even prior to COVID-19, Victorian businesses have been dealing with slowing productivity growth relative to other states and territories.

Over the past two decades, productivity has grown at a slower rate in Victoria than in the rest of Australia. Figure 3 compares the labour productivity in Victoria with the rest of Australia measured as gross state product (GSP) per hour worked. It shows that Victoria's productivity challenge began well before the disruptions of COVID-19. Victoria was matched by Queensland and nearly caught by Tasmania and South Australia. The most recent data points from 2019 to 2021, are influenced by the economic contraction caused by COVID-19: in Victoria the fall in hours worked was more than the reduction in GSP. This resulted in a slight uptick in productivity (although this is expected to be temporary).

Victoria ranks 7<sup>th</sup> in cost and ease of doing business related to productivity and stability.

Figure 3 | Gross state product per hour worked from 1999-00 to 2020-21 (\$)¹⁵



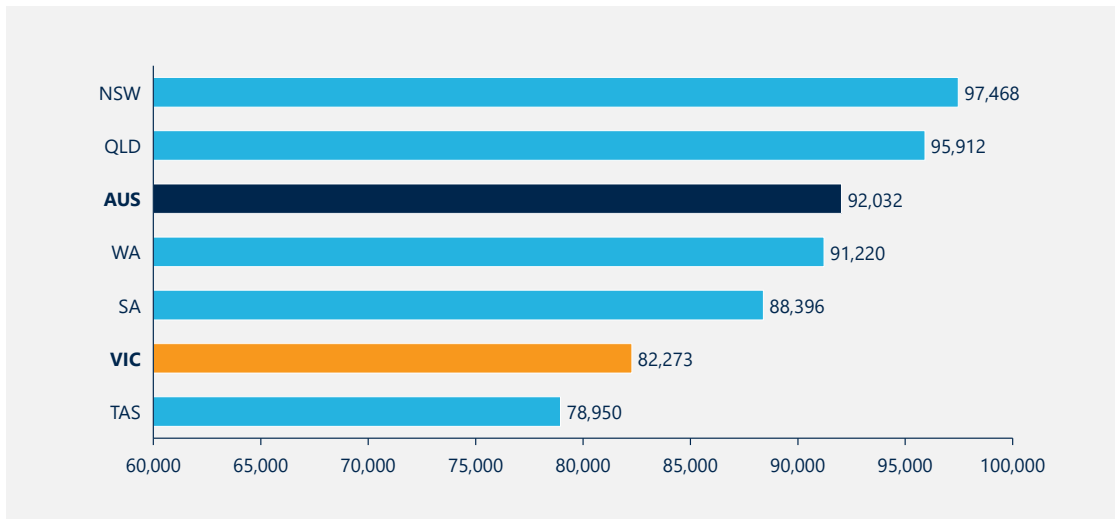
These figures show that Victorian businesses are finding it increasingly challenging to keep up with the rate of productivity growth in other states. In some key sectors the productivity challenge is even more pronounced. Victoria's production per worker in the tourism sector is one of the lowest in Australia.<sup>16</sup> GSP per tourism worker over the 2018–2019 financial year – before the impact of COVID-19 – was 15.6 per cent lower in Victoria than in New South Wales and 10.6 per cent lower than in Australia (see Figure 4). Businesses in New South Wales and Queensland are able to produce nearly \$100,000 of tourism gross state product for each worker, compared to just over \$80,000 in Victoria.

<sup>15</sup> Australian Bureau of Statistics, Australian national accounts – state and territory final demand & Labour Force, June 2021 accessed at: [\[Link\]](#)

<sup>16</sup> Tourism is used because there is appropriate data available in Australia. The Australian Bureau of Statistics produces the estimates at a national level (with input from the International Visitor Survey and National Visitor Survey) and Tourism Research Australia produces the state and regional estimates.



Figure 4 | Tourism gross state product per worker in 2018–19 (\$) <sup>17</sup>



## Victoria has some clear advantages, but on balance it is a higher cost jurisdiction

Victoria leads the country in educational attainment with the second highest proportion of higher education graduates.

Victoria ranks 1<sup>st</sup> in cost and ease of doing business related to skills and labour.

Victoria produces a high proportion of highly skilled graduates with 39.1 per cent of the population holding a bachelor's degree or higher in 2020.<sup>18</sup> The cost and ease ranking indicates that Victorian employers have the least difficulty in hiring for the right skills when compared with the other states. Only 28 per cent of Victorian recruiters said they had difficulty in recruitment due to lack of skills or qualifications in their candidates, compared with the Australian average of 31 per cent.<sup>19</sup>

Victoria also performs well in educational attainment on a global scale. Melbourne has two universities ranked in the top 100 universities for the Times Higher Education (THE) and QS world rankings in 2021. The University of Melbourne placed 31<sup>st</sup> and 41<sup>st</sup> in the THE and QS rankings respectively, and Monash University placed 64<sup>th</sup> and 55<sup>th</sup> respectively.

However, success in promoting university education in Victoria has resulted in the state having a relative skill shortage in post-secondary (non-degree) trade qualifications such as vocational Certificates III (CERT III) and higher. Victoria has the second lowest proportion of people with trade qualifications in Australia with 41.5 per cent of the population qualified. Success in encouraging more Victorians to attain a bachelor's degree may have come at the cost of a reduced pipeline of vocational skills.

<sup>17</sup> Tourism Research Australia, State Tourism Satellite Account 2018-2019, 2020 accessed at: [Link](#)

<sup>18</sup> Nous' cost and ease of doing business ranking for Victoria. Please see Appendix A for further details

<sup>19</sup> National Skills Commission, Survey of Employers' Recruitment Experiences – 2019 Data Report, Main reason for recruitment difficulty, 2019, accessed at: [Link](#)

**A Melbourne-born start-up that specialises in sport technology and research chooses to stay in Victoria citing the state's key offerings to support innovation initiatives.**

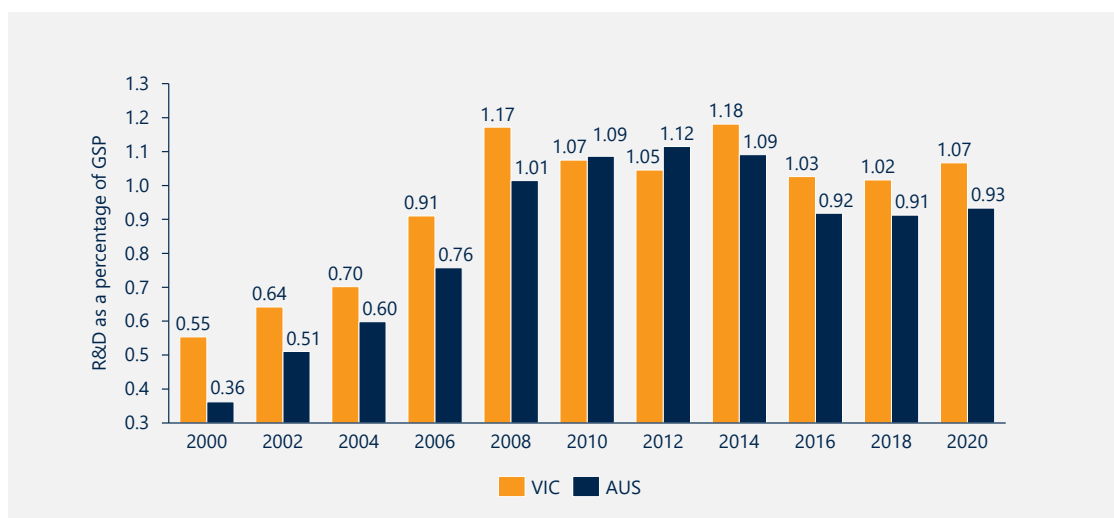
An ASX-listed sports analytics company born in Melbourne has chosen to retain its headquarters in the city. The firm has a large global presence and employs staff across 25 countries to provide some of the world's leading athletes with real-time analytics on performance. The company cited their decision to remain in Melbourne as driven by the support the firm received from the government for innovation research and industry collaborations, and the state's capabilities in engineering and sport fitness.

**Victoria is a hub for entrepreneurship and business innovation**

Across 2017 to 2021, Victoria had the second highest business entry rate (new businesses as a proportion of operating businesses in the year) at 16.6 per cent, behind the ACT at 18.1 per cent.<sup>20</sup> The state is also a leader in private sector investment into R&D, as shown in Figure 5 below, with a 3.3 per cent compound annual growth rate from 2000 to 2020.

Victoria ranks 2<sup>nd</sup> in cost and ease of doing business related to infrastructure and connectivity and entrepreneurship and growth.

**Figure 5 | Private sector R&D as a percentage to grow state product from 2000 to 2020 (%)<sup>21</sup>**



**Victoria is a large consumer market supported by good infrastructure and low-cost utilities**

Victoria is an attractive market for business with the second largest population in the country.<sup>22</sup> Victorian businesses have access to the Australia's most efficient trading port. Figure 6 illustrates the throughput and efficiency of Australia's key ports. Melbourne exceeds the national average in volume by 30 per cent and has a comparable efficiency to Sydney.

Despite volatility in energy prices, businesses in Victoria have relatively low costs for electricity compared to averages in other states. More than half (53 per cent) of business owners in Victoria believe they receive poor value for money from the prices they pay for utilities; however, the average annual electricity cost for small to medium businesses in Victoria is broadly in line with other states and territories. In Victoria the

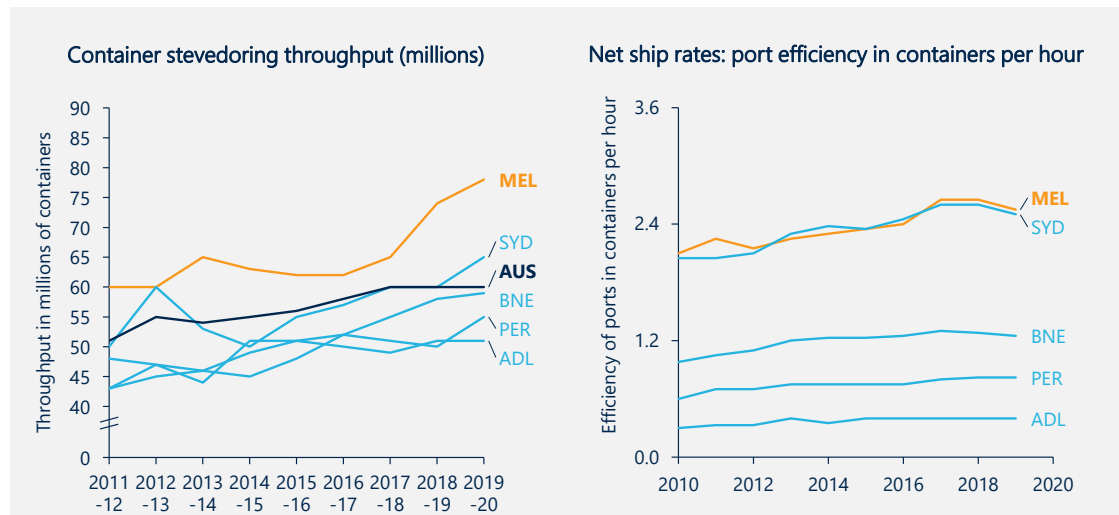
<sup>20</sup> Nous' cost and ease of doing business ranking for Victoria. Please see Appendix A for further details

<sup>21</sup> Australian Bureau of Statistics, Research and Experimental Development, Businesses, Australia 2021 accessed at: [\[Link\]](#)

<sup>22</sup> Australian Bureau of Statistics, National, state and territory population, September 2021 accessed at: [\[Link\]](#)

estimated average annual electricity bill for small and medium enterprise (that is, with assumed SME demand of 2000kWh/annum) is \$5,670, just above the Australian average of \$5,479 and below the New South Wales estimate of \$5,880.<sup>23</sup> Electricity costs to businesses are cheapest in South Australia, with an average annual cost of \$3,585, and most expensive in Western Australia, with an average annual cost of \$6,415.

**Figure 6 | Trade efficiency of major ports (2011 – 2020)<sup>24</sup>**



**Overall, Victoria is a higher cost jurisdiction for business than most other states and territories.**

55 per cent of Victorian businesses with operations in other jurisdictions say Victoria is a harder place to do business.

Amidst these clear advantages, the evidence shows that Victoria is on balance a higher cost jurisdiction. State and local taxation in Victoria is 6.3 per cent of GSP, compared with 5.7 per cent for NSW, as shown in Figure 7. Victoria is also the third most taxed jurisdiction in the country when measured on a per capita basis.<sup>25</sup> Being a higher tax jurisdiction means that businesses expect a higher quality of government services.

Victorian businesses that also have a presence elsewhere in Australia or abroad are in a unique position to comment on the cost and ease of doing business in Victoria. Over half of these businesses say that in their experience it is harder to do business in Victoria compared to the other jurisdictions where they operate,<sup>26</sup> while only 4.4 per cent said it is easier to do business in Victoria.

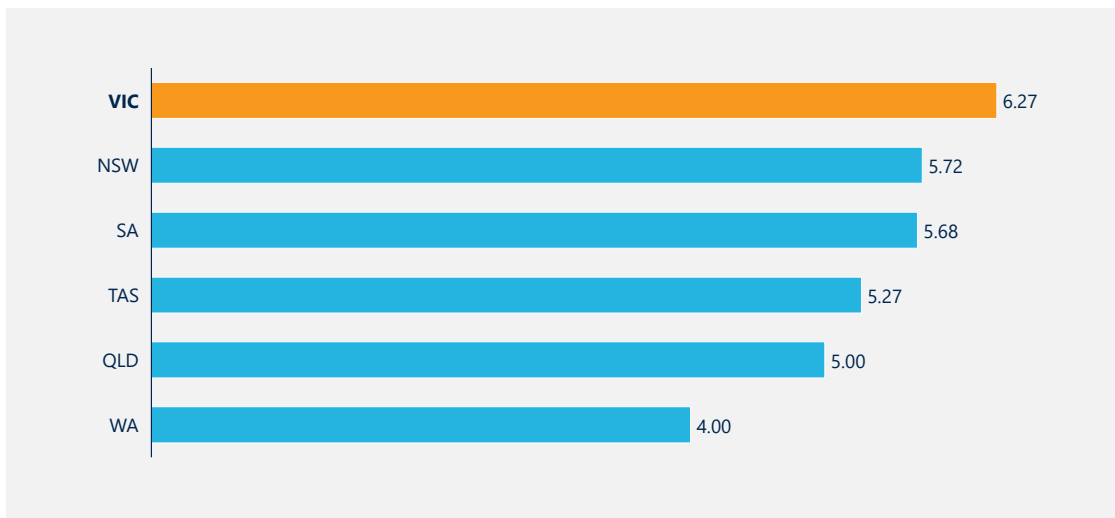
<sup>23</sup> Energy Consumers Australia, Analysis of small business retail energy bills in Australia, Small and Medium Enterprise (SME) Retail Tariff Tracker Project, June 2021, accessed at: [Link](#)

<sup>24</sup> ACCC, Container stevedoring monitoring report 2019-2020, October 2020, accessed at: [Link](#)

<sup>25</sup> Calculated using Nous' cost and ease of doing business ranking methodology for Victoria. Please see Appendix A for further details

<sup>26</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details

Figure 7 | Total tax expenses (state and local only) as a percentage of gross state product, 2019–20 (%)<sup>27</sup>



## The intangible costs of doing business are building up

Victorian business owners are spending more time on unproductive activities.

39 per cent of Victorian businesses say time is a bigger cost to business than money.

Time is a considerable cost to business. Most time is spent complying with workplace relations rules, navigating regulation and managing compliance expectations. Nearly 40 per cent of Victorian businesses who responded to VCCI's survey identify time as a bigger cost to business than money (that is, tangible costs). Time in this sense refers to the costs that come from the delays and time spent in processes that stifle productivity. For example, only six per cent of Victorian businesses believe waiting periods for government approvals are improving and 85 per cent see government regulators as a barrier to doing business.<sup>28</sup> Consultations with business leaders indicated that the mid-level managers responsible for administering regulations adopt a risk-averse approach that is not consistent with the policy intent of the regulation.

Victorian business owners and operators do not feel sufficiently supported in their mental health.

Running a business can take a considerable toll on mental health due to financial stress, time away from family and caring for the wellbeing of staff. Small business owners in particular feel that staff at all levels are at risk of burn out in the period beyond COVID-19. Businesses feel that they are not receiving adequate services in return for the compulsory mental health and wellbeing surcharge levied by the state government.<sup>29</sup> Only 21 per cent of Victorian business owners feel supported in managing their mental health and wellbeing.<sup>30</sup>

Only one in five Victorian business owners feel supported in their mental health.

Data from the small business owner and mental health survey by the Department of Industry, Innovation and Science, shown in Figure 8, shows that Victorian businesses rate social stressors as the second highest

<sup>27</sup> Australian Bureau of Statistics, Taxation revenue Australia, 2019 to 2020 & Australian national accounts – State accounts accessed at: [\[Link\]](#)

<sup>28</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.

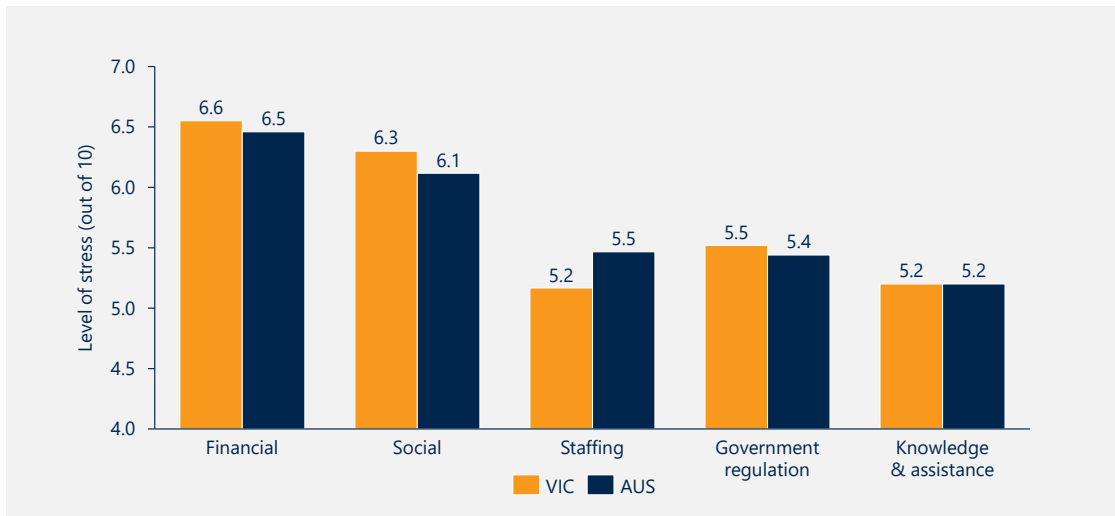
<sup>29</sup> State Revenue Office, Mental health and wellbeing surcharge, August 2021, accessed at: [\[Link\]](#)

<sup>30</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.



worry behind financial stressors. Within this, business owners rated their worry about the impact to their family as 6.8 out of 10.

**Figure 8 | Level of stress (out of 10) experienced with the following issues related to owning a business in Victoria compared to Australian average in 2020<sup>31</sup>**



#### Victoria's reputation as a leading place to work and live is at risk.

Victoria ranks 6<sup>th</sup> in cost and ease of doing business related to affordability.

Melbourne is ranked the 8<sup>th</sup> most liveable city in the world in 2021, after ranking in the top three consistently since 2002.<sup>32</sup> The cost of living in Victoria is rising, which creates additional affordability challenges for business operators. Housing affordability is in the mid-range compared to other states and territories, but has worsened slightly since 2011. The state has a median house price to median income ratio of 7.2 (shown in Figure 9), which is lower than NSW and Queensland but is 3.7 per cent higher than it was in 2011. Liveability challenges mean that businesses owners may be less inclined (or less able to afford) to raise a family in Victoria or Melbourne now than previously. Victoria also ranks low in quality of life measures, coming in seventh with a quality of life index of 174.2, behind the national average of 181.3.<sup>33</sup> This index is a composite measure that covers purchasing power, pollution, cost of living and other relevant measures developed from crowd-sourced data.

Although there is research to show that Victorian regional cities are the most liveable in Australia,<sup>34</sup> there are still challenges in labour access, with regional businesses finding it difficult to retain labour. Worker accommodation is in particularly short supply in regional areas, as was recognised in a recent government announcement to help boost the farming workforce in Victoria.<sup>35</sup>

<sup>31</sup> Department of Industry, Innovation and Science, Small Business Owner and Mental Health Survey, Weighted base n=1015, 2020 accessed at: [\[Link\]](#)

<sup>32</sup> Economic Intelligence Unit, The Global Liveability Index 2021, accessed at: [\[Link\]](#)

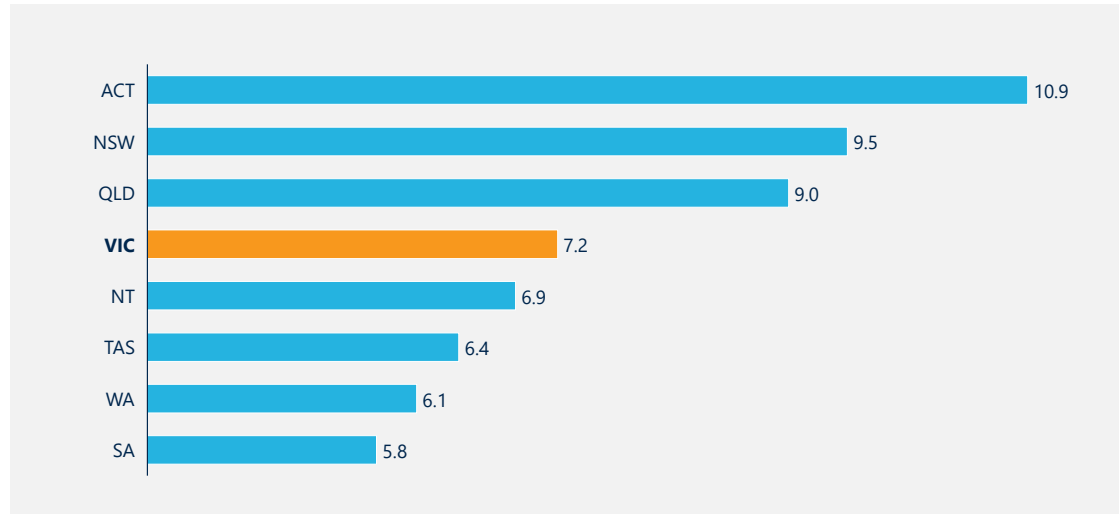
<sup>33</sup> Numbeo, Quality of life index, accessed at: [\[Link\]](#)

<sup>34</sup> RMIT University, Australia's most liveable regional cities revealed, March 2020, accessed at: [\[Link\]](#)

<sup>35</sup> Premier of Victoria, New On-farm Accommodation Plan to Boost Workforce, accessed at: [\[Link\]](#)

The IESE Cities in Motion Index ranked Melbourne 37<sup>th</sup> in 2020, down from 22<sup>nd</sup> in 2019<sup>36</sup>, and the Innovation Cities Program ranked it 33<sup>rd</sup> in 2020, down from 11 in 2019.<sup>37</sup> Some businesses have suggested that the Victorian government's need to enforce long lockdowns over the COVID-19 pandemic may have fostered a perception that Victoria is not welcoming to businesses.

Figure 9 | Median house price to median income ratio 2018<sup>38</sup>



## Victorian businesses do not feel that they are getting appropriate value from the tax they pay

Those surveyed do not feel that government services are delivered optimally for Victorian business.

Only 40 per cent of surveyed businesses believe they are getting 'fair' or 'good' value from the taxes they pay in Victoria (relative to services received).

Businesses recognise that some tax and regulation is necessary provided it is risk appropriate and value for money. However, Victorian business owners do not feel that they are receiving proportionate value for the regulation and tax requirements imposed (particularly with Victoria being a comparatively higher-tax state).

Victorian businesses have indicated that they understand their regulatory obligations but acting on them is cumbersome. Nearly 60 per cent of VCCI survey respondents are very confident they are meeting regulatory obligations, and only 5 per cent say they are not at all confident.<sup>39</sup> However, starting a business in Victoria requires businesses to navigate more permits and licences than in other states, as seen in Figure 10. In other words, the problem is not necessarily *what* the regulation is, but instead *how* it is administered.

Victoria ranks 8<sup>th</sup> in cost and ease of doing business related to government services and tax.

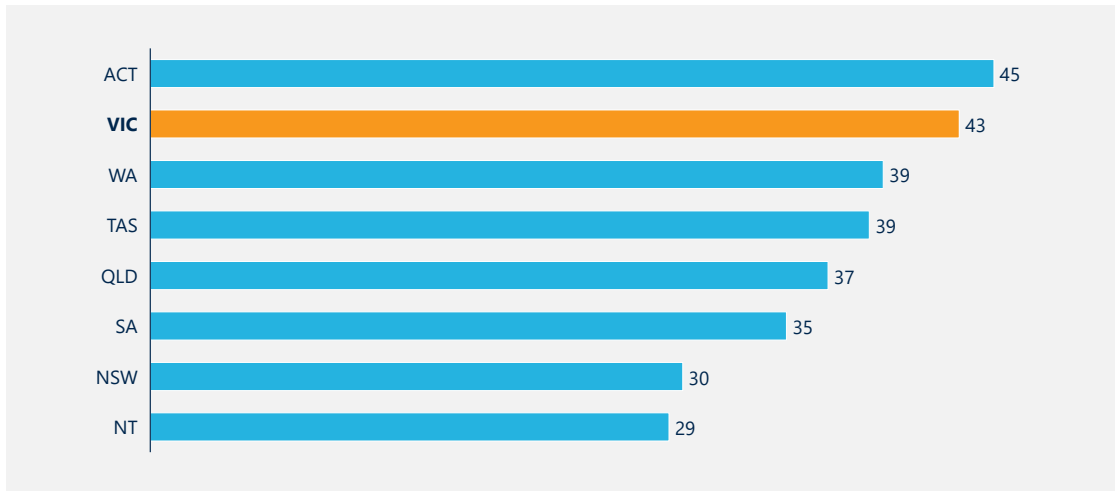
<sup>36</sup> IESE Business School, Cities in Motion Index, University of Navarra, accessed at: [\[Link\]](#)

<sup>37</sup> 2thinknow, Innovation Cities™ Index, 2021, accessed at: [\[Link\]](#)

<sup>38</sup> Calculated using data from Australian Bureau of Statistics, Residential property price indexes eight capital cities 2021 & Personal Income Australia 2011-12 to 2017-18

<sup>39</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.

Figure 10 | Average number of licences, permits and regulation items required to start three different kinds of businesses across different states and territories<sup>40</sup>



Only 6 per cent think wait times with government processes are improving.

As noted earlier, Victorian business owners see time as a considerable cost to their business, and time spent navigating government processes is a key part of this barrier. Almost 44 per cent of Victorian businesses think that waiting times for government services, including compliance and regulation, are getting worse. Businesses have also indicated that there are high levels of duplication in providing data to meet regulation obligations and a sense that there is a lack of interdepartmental sharing of data. This often means businesses end up acting as the middleperson, trying to resolve inconsistent rules or mixed messages, or relaying information between government agencies that don't communicate or agree with each other. This is experienced by businesses when interacting with local, state, and federal government agencies.

#### Those surveyed viewed public service culture as a barrier to doing business.

Over 80 per cent of VCCI survey respondents say that the culture of government regulators is a barrier to doing business (see Figure 11).<sup>41</sup> Victorian regulators are perceived as 'approvers' rather than 'enablers' of business, and Victoria ranks 8<sup>th</sup> in the proportion of public service employment to total employment.<sup>42,43</sup> This is seen at the operational level when businesses interact with government. It further contributes to the time costs faced by business.

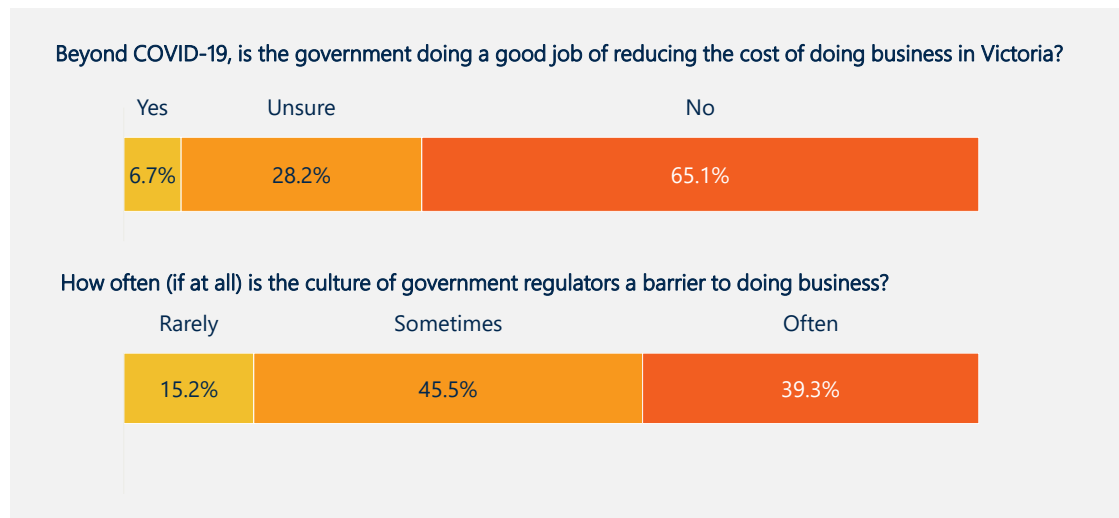
<sup>40</sup> Number of permits and licenses required to setup a business in each jurisdiction, determined for Australian Business Licence and Information Service (ABLIS), accessed at: [\[Link\]](#). Data presented are results from selecting the same options in ABLIS for a restaurant, grocery retail business and accounting service.

<sup>41</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.

<sup>42</sup> Calculated using Nous' cost and ease of doing business ranking methodology for Victoria. Please see Appendix A for further details.

<sup>43</sup> Global rankings like the IESE Cities in Motion Index consider higher proportions of public sector employment as a positive sign of governance and higher service delivery. This metric comes with some caveats, for example, public sector employment in Australia includes teachers and public transport, and in Victoria there is a larger concentration of private schools and public transport operation is privatised – leading to a lower proportion of public sector employment for the state.

Figure 11 | Victorian business is expecting more from government (% of responses)<sup>44</sup>



## Victoria's relative strength in skills and labour does not reflect the acute challenges experienced by some businesses

Victoria's highly educated workforce is not translating into ease of access to skills and labour.

Four out of five Victorian businesses reported difficulty accessing the skills and labour they require.

Victorian labour is the most highly educated in the country; however, Victorian businesses still find accessing skills a challenge. Businesses have indicated that a key issue is the skills mismatch in the Victorian market. Despite very high levels of educational attainment in Victoria, these skills are not always most aligned with the needs of business, particularly in entry-level and vocational positions (often filled by migration). As noted earlier, Victoria ranks second in the percentage of population with a bachelor's degree or above (second only to the ACT); however, the state ranks seventh in the percentage of population with a Certificate III qualifications to a Diploma.<sup>45</sup> Figure 12 illustrates this gap.

Businesses are therefore finding it difficult to access the skills and labour they require (and this is likely to persist, even when international borders reopen), with 83 per cent of survey respondents indicating it is a barrier. That noted, skills are reportedly in short supply across Australia as well, hence the *relative* ranking is not as poor.

<sup>44</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.

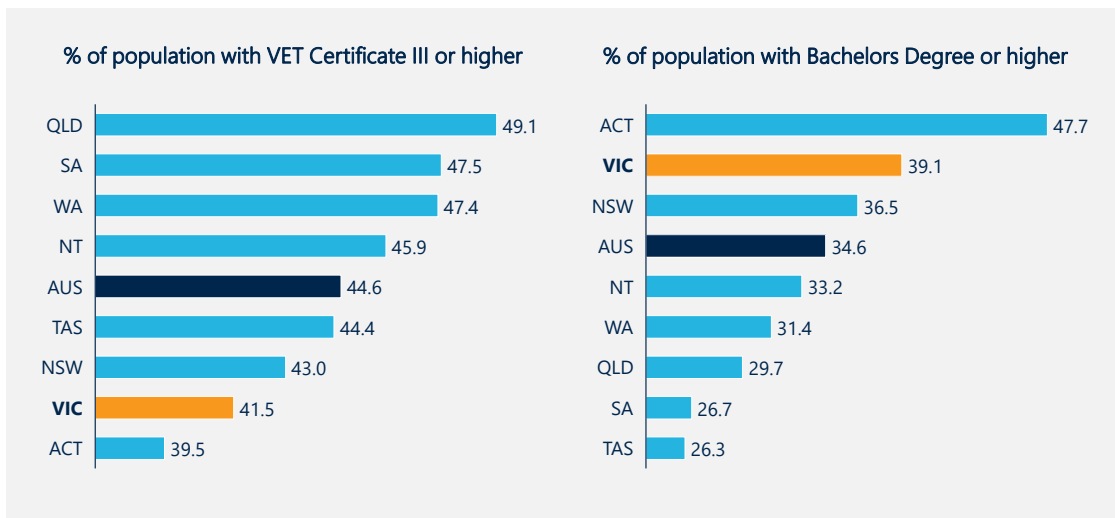
<sup>45</sup> Australian Qualifications Framework, AQF qualifications, accessed at: [\[Link\]](#)



### Perspective on the VET challenge from a leading vocational education provider in regional Victoria.

One of Australia's largest regional providers of vocational education and training (VET) has identified that the reputation challenge faced by VET in Victoria is creating real costs for businesses seeking key skills. They noted a public perception that VET is a less valuable qualification in Victoria than other forms of tertiary education. This challenge is magnified by shortages in facilities and trainers, resulting in limited training capacity. The government support structure for VET in Victoria is driven by compliance. Courses are supported based on compliance needs for the associated industry, and individual VET providers seek funding support on their own. By contrast, they noted New South Wales takes a 'whole of state' approach to VET, whereby training is supported by the government at the state level – which means that planning for skills demand by industry is more proactive.

Figure 12 | Proportion of population with a VET qualification vs. proportion of population with a degree level qualification (%)<sup>46</sup>



### Labour costs and barriers are not felt evenly across the state – with regional Victoria the hardest hit.

Regional businesses in Victoria face more difficulty in securing the skills they need than metropolitan employers. Affordability and accommodation challenges make it difficult to attract labour to regional Victoria. Businesses indicated that some areas have underdeveloped social infrastructure (for example day-care services), which discourages labour migration into the regions.

<sup>46</sup> Australian Bureau of Statistics, Education and Work Australia, May 2020 accessed at: [\[Link\]](#)

**Regional businesses are at a disadvantage because of limitations of social and physical infrastructure.<sup>47,48</sup>**

Latrobe City is a regional local government area in Victoria. The city council has highlighted the critical role of state infrastructure and service investment to promote work and leisure in the region as part of its submission to Infrastructure Victoria for the infrastructure strategy for 2021–2051. The council cited as priorities additional infrastructure development to facilitate mobility, social, education and community needs in the region. Infrastructure Victoria has also highlighted that ensuring better education access, economic resources and social capital is key to making it easier to do business in regional Victoria and to create more opportunities for areas like Latrobe City.

The nature of the skills challenge also means that some industries are more susceptible than others to the costs and barriers of labour in Victoria. Almost 50 per cent of manufacturing and 55 per cent of accommodation and food services business find access to skills and labour very difficult, compared to only 30 per cent of professional services. This is an example of the degrees-versus-vocational dichotomy in Victoria's skill shortages.<sup>49</sup>

**The labour market is also changing, which brings with it new costs for business to manage.**

Three out of five Victorian businesses feel they get value for money from the labour costs they pay.

Although the forecasts of a 'great resignation' have not yet come to fruition, the labour market has still become increasingly transactional – businesses are reluctant to invest in training workers that may soon move on, and workers have little attachment to stay and build a career with one employer.<sup>50</sup> This results in less mutually beneficial investment in on-the-job training than occurred in the past. Despite this however, the majority of businesses feel they get fair (at least) value for money for labour costs.

Victorian businesses are faced with additional costs related to rapid change in 'ways of working', including meeting employee expectations for flexibility and remote working, as are other states. An estimated 1.6 million Australians were working remotely during the pandemic, and there is evidence that more employees want this flexibility to remain.<sup>51</sup> Research from the University of Melbourne highlights changes to management best practices, and perceptions of work ethic, as key impacts on businesses arising from flexible working.<sup>52</sup> Victorian business owners and managers will need to continue adapting to these implicit costs as the state transitions to living and working with COVID-19.

<sup>47</sup> Latrobe City Council, Submission to Infrastructure Victoria 30-year strategy, June 2016, accessed at: [\[Link\]](#)

<sup>48</sup> Infrastructure Victoria, The role of infrastructure in addressing regional disadvantage in Victoria, October 2019, accessed at: [\[Link\]](#)

<sup>49</sup> Responses for manufacturing were n = 101, accommodation and food services n = 60, and professional, scientific, and technical services n = 62.

<sup>50</sup> M. Wooden, P. Gahan, Australia's 'great resignation' is a myth – we are changing jobs less than ever before, The Conversation, November 2021, accessed at: [\[Link\]](#)

<sup>51</sup> Monash Business School, The battle to retain COVID's flexible work arrangements, Monash University, December 2020, accessed at: [\[Link\]](#)

<sup>52</sup> Faculty of Business and Economics, Flexible working beyond COVID-19, The University of Melbourne, May 2020, accessed at: [\[Link\]](#)



## Businesses are operating under greater uncertainty

Victorian business view policy uncertainty as a real risk and barrier to long-term investment.

52 per cent of businesses rated changes in legislation and regulation as one of the top three risks to business over the next five years.

Uncertainty or instability in government policy direction is a top risk for 45 per cent of VCCI survey respondents (seen in Figure 13).<sup>53</sup> Businesses have highlighted that decarbonisation risk and migration policy are key areas of uncertainty that are most likely to drive significant costs to doing business in the future. Changes in legislation and regulation (that is new laws, licensing) was also a top priority risk for 52 per cent of businesses. Notably, both cost drivers are largely within the control of government.

Related to uncertainty, the businesses engaged as part of this report expressed that they are not feeling consulted on key policy decision-making. Specifically, these businesses feel that they do not get sufficient input on government policies and decisions that affect their operations (such as changes to the skills priority list).

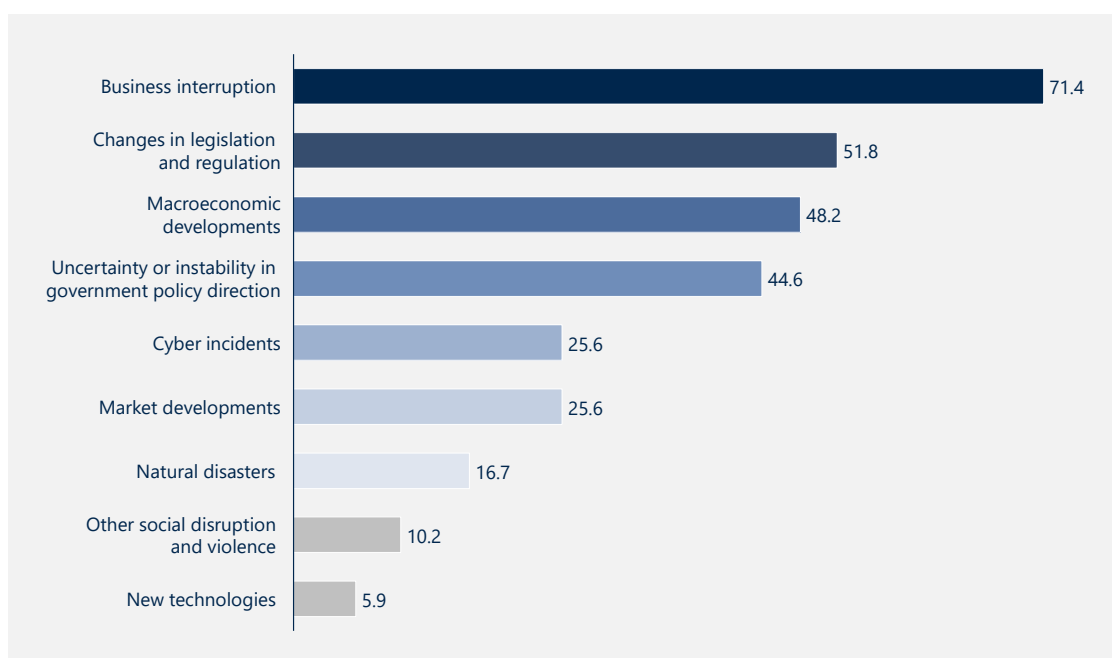
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<sup>53</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.

### A large Australian food retailer struggles to fill skilled roles after policy changes.

A large Australian food retailer with over 500 outlets around Australia is struggling to get the skills it needs in Victoria and elsewhere across the country. Changes to the priority skills list without proper consultation have disrupted business without warning. This has resulted in skills shortages and difficulties retaining skilled migrants now that the government is not recognising baking as a priority skill. The challenge is particularly difficult for franchises operating in regional Victoria, where labour shortages are already more pronounced. An internal survey conducted by the food retailer found that locations across their network are struggling to recruit apprentices and qualified bakers. The highest level of recruitment issues are concentrated in Victoria's west.

**Figure 13 | Risks most likely to become a significant cost of doing business in Victoria over the next five years (% of businesses that chose the risk in top three).<sup>54</sup>**



### The regulatory environment beyond COVID-19 is not fully understood yet.

Victorian businesses prior to the passing of pandemic legislation were concerned about the risk that the use of temporary emergency powers (for example, to close businesses through lockdowns during the pandemic) might outlive their time. Many argue that the government needs to return to a less interventionist setting on business operations as soon as possible and the new legislation addresses this to some degree though not completely.

Businesses are also expecting further COVID-19 related disruptions on the horizon. Business disruption (such as to supply chains and trade) and changes in legislation were a top risk and future cost driver for more than half of survey respondents.

Over 70 per cent of businesses rated business interruption (such as COVID-19) as one of the top three risks to business over the next five years.

<sup>54</sup> Calculated based on results from an October 2021 survey of 746 VCCI members. Please see Appendix B for further details.





## Appendix A Cost and ease ranking methodology

### Overview of the cost and ease ranking

The cost and ease ranking provides a quantitative view of the overall cost and ease of doing business in Victoria by emulating methods used in global business rankings, but at the state level in Australia. It serves as a measure for Victoria's performance relative to other jurisdictions on key barriers, attractions and deterrence for new and existing business.

The analysis provides a new subnational perspective on the cost and ease of doing business where it was previously difficult to compare across Australian states and territories. The absence of a substantive ranking prior to this work means it will create new value for a range of audiences. In particular, the ranking provides key insight on priority areas of focus for policymakers by highlighting the costs of doing business that matter most to businesses in Victoria and relative to other jurisdictions.

The ranking enables a meaningful comparison by standardising metrics. It is tailored to the issues that affect the *relative* attractiveness of different states within Australia to do business. For example, monetary policy is ignored, as the interest rate set by the RBA applies equally to all states of Australia, so they would all rank equally on that metric.

The ranking constructed using 23 metrics across six key themes (see Table 3). Each theme contains a minimum of three metrics and at most five metrics.

**Table 3 | Ranking themes and descriptions**

<b>Cost or ease theme</b>	<b>Description</b>	<b>Victoria's ranking</b>
<b>Skills and labour</b>	Skills and labour provide an indication of the availability and accessibility of a skilled workforce to businesses within a jurisdiction. This theme includes metrics such as post-secondary education attainment (higher education and VET levels) and labour access.	1
<b>Infrastructure and connectivity</b>	Infrastructure and connectivity measure the direct costs (for example, utility costs) and intangible costs (for example, time spent in travel) within a jurisdiction. This theme includes metrics such as price of electricity and traffic indices.	2
<b>Entrepreneurship and growth</b>	Entrepreneurship and growth measure the opportunities available for businesses to grow within a jurisdiction and the capacity for business to act on those opportunities. This theme includes measures such as private sector R&D investment and market size of a jurisdiction.	2
<b>Productivity and stability</b>	Productivity and stability capture the relative efficiency of businesses operating in each jurisdiction. It also measures the stability of the business environment. This theme includes metrics such as GSP per hour worked and annual changes in state level CPI.	6
<b>Affordability</b>	Affordability provides a view of the intangible costs of living and working in a jurisdiction (that is, the costs that come with retaining labour or choosing a jurisdiction to expand business operations). This theme includes metrics such as house price to income ratio and quality of life.	6
<b>Government services and tax</b>	Government service provides an indication for how the operating environment for business is influenced by state and local government in each jurisdiction. This theme includes metrics such as tax and compliance obligations.	8

# Methodology

Figure 14 presents a high-level overview of the cost and ease ranking methodology.

Figure 14 | Overview of the methodology for constructing the cost and ease ranking



## Step 1: Determine the set of 23 metrics for the basis of the model.

Popular international rankings including the World Bank *Doing Business* report<sup>55</sup>, the World Economic Forum *Global Competitiveness Report*<sup>56</sup> and IESE Business School's *Cities in Motion Index*<sup>57</sup> were used in the first instance to identify metrics for measuring the cost and ease of doing business. Guided by the literature, additional metrics were chosen for their tangible and intangible impacts on the costs of doing businesses across jurisdictions. The finalised list provides a complete perspective on the costs and ease of doing business within a jurisdiction, that is, the metrics provide breadth in coverage for the implicit costs to businesses.

Data underpinning metrics is sourced from a range of providers. Publicly available primary datasets like the ABS and secondary sources such as reports from the ACCC make up most metrics. Some alternative data sources like crowd-sourced information website like Numbeo are also used.

The full list of metrics included in the final ranking are presented in Table 4.

## Step 2: Correct metrics for short-term fluctuations and jurisdictional differences in size.

Each metric is adjusted as needed based on size (for example, calculated per capita or output) and fluctuations over time (for example, through a five-year average). This adjustment enables a levelled comparison across states and territories.

## Step 3: Adjust for directionality.

Metrics are adjusted to account for directionality of the cost or ease they are intended to measure. This allows for a consistent direction of metrics contributing to the overall ranking level. For example, higher GSP per capita is a positive indicator of productivity and therefore the directionality of the metric is also positive. The directionality for the metric taxation per capita (state and local) is negative because higher taxes represent a higher cost to business and contributes to a lower ranking for the state.

## Step 4: Standardise using z-scores.

Each metric is converted to a z-score according to the formula presented in Figure 15 below. The z-score functions as a common measure across metrics as it can be calculated from any metric regardless of the unit of measure (for example, percentages, dollar per person or number of approvals). This allows for a relative ranking with direct comparison across each metric and jurisdiction.

<sup>55</sup> World Bank, *Doing Business 2020*, accessed at: [\[Link\]](#)

<sup>56</sup> World Economic Forum, *Global Competitiveness Report 2020*, accessed at: [\[Link\]](#)

<sup>57</sup> IESE Business School, *Cities in Motion Index*, University of Navarra, accessed at: [\[Link\]](#)

Figure 15 | z-score calculation for a metric<sup>58</sup>

$$\text{z-score for a given metric} = \frac{\left( \text{observed value for a jurisdiction} - \text{average value across jurisdictions} \right)}{\text{standard deviation across jurisdictions}}$$

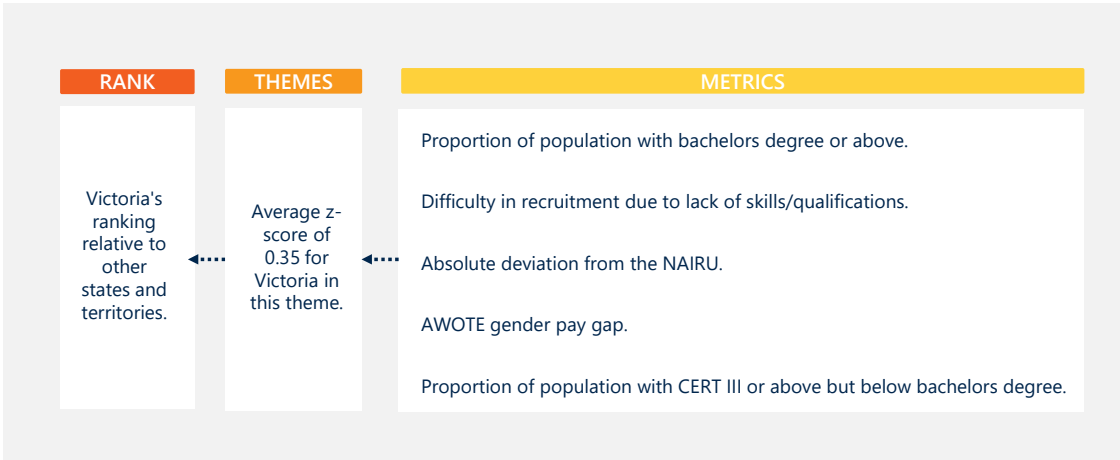
**Step 5: Construct ranking by aggregating z-scores.**

The ranking follows a 'roll-up approach' using the 23 key metrics that cover a range of direct and indirect costs to businesses in Australia. Metrics are rolled-up into six themes based on the main area of impact for businesses that the metric contributes to. Each theme has between two and five metrics underpinning it.

The score for each theme is measured as the average z-score of the metrics contained within it. For example, the skills and labour theme has a z-score of 0.35 for Victoria, which is the average of the z-scores across the five metrics under this theme (see Figure 16). Calculating the theme level z-scores allows for state ranking at the theme level.

A full list of the themes and metrics used in the approach, along with rational for selection and Victoria's ranking is presented in Table 4.

Figure 16 | Example approach to calculating the skills and labour ranking for Victoria



<sup>58</sup> J. T. McClave, P. G. Benson, T. T. Sincich, Statistics for Business and Economics: Global Edition, 13<sup>th</sup> edition, Pearson, 2018

**Table 4 | List of themes and metrics with Victoria's ranking in each**

Theme	Metric	Description	Source	Rank
Infrastructure and connectivity	Throughput at city ports.	Throughput of containers at monitored ports in Australia's capital cities measured as the five-year average from 2015-16 to 2019-20 of the annual number of containers through the port. A measure trade volume to indicate business activity and connectedness with other Australian and international markets.	Australian Competition & Consumer Commission, Container stevedoring monitoring report, Figure 3.1, 2019-2020.	1
Infrastructure and connectivity	Productivity at ports.	Multifactor productivity of ports measured by the five-year average from 2015-16 to 2019-20 of net ship rates (that is, crane rates multiplied with crane intensity). Trade efficiency is an indicator for the ease with which exporting and importing businesses can access other markets.	Australian Competition & Consumer Commission, Container stevedoring monitoring report, Figure 3.8, 2019-2020.	1
Entrepreneurship and growth	Business expenditure on R&D.	Five-year average of business expenditure on R&D as a percentage of five-year average GSP from 2016 to 2020. A measure for business investment in R&D that drives growth through private sector innovation.	R&D expenditure: Australian Bureau of Statistics, Research and experimental development, Businesses, Australia. 2019-2020. GSP: Australian Bureau of Statistics, Australian National Accounts: State accounts, 2021.	2
Entrepreneurship and growth	Entry rates of businesses.	Four-year average from 2017-18 to 2020-21 of the entry rate of businesses across states. Entry rates of businesses is an indicator of the entrepreneurship and economic dynamism of the state.	Australian Bureau of Statistics, Counts of Australian businesses including entries and exits.	2
Entrepreneurship and growth	Market size.	Population estimates for each state and territory in 2021 as a proxy for market size. This is a proxy indicator for the market size available to businesses in each jurisdiction.	Australian Bureau of Statistics, National state, and territory population.	2
Skills and labour	Higher education measure.	Proportion of population with a bachelor's degree or above in education in 2020 (ages 20-64 years). A measure of education attainment to indicate availability of certain skills in a jurisdiction.	Australian Bureau of Statistics, Education and work, 2021.	2
Skills and labour	Difficulty in recruitment.	Proportion of surveyed employers who cited 'Applicants lacked technical skills/qualifications' as a reason for recruitment difficulty in 2019. A measure of business ability to employ for the right skills and labour.	National Skills Commission, Survey of Employers' Recruitment Experiences – 2019 Data Report, Main reason for recruitment difficulty, 2019.	2



Theme	Metric	Description	Source	Rank
Productivity and stability	Price volatility.	Five-year average from 2016 to 2020 of the absolute percentage change in CPI for capital cities from the previous year. A measure of price stability in a jurisdiction that indicates a more stable business environment and cost basis.	Australian Bureau of Statistics, Consumer Price Index, Australia, 2021.	3
Skills and labour	Employment stability.	Non-Accelerating Inflation Rate of Unemployment (NAIRU) subtracted from the absolute value of five-year average from 2016 to 2020 of state unemployment rates. A measure for the stability in a jurisdictions unemployment level which indicates a more stable business environment.	Australian Bureau of Statistics, Labour Force, 2021. Treasury, Estimating the NAIRU in Australia, 2021.	3
Skills and labour	Pay inequality.	Five-year average from 2016 to 2020 of the weekly ordinary time earnings, measured as the gender pay gap between males and females. A measure of the disparity in gender pay that contributes to labour shortage.	Australian Bureau of Statistics, Average weekly earnings Australia, 2021.	3
Infrastructure and connectivity	Cost of utilities.	Estimated average annual electricity cost for small to medium businesses. Estimated for a yearly usage of 2000 kWh. A proxy measure of utility costs for businesses.	Energy Consumers Australia, SME Retail Tariff Tracker Report, 2021.	4
Affordability	Housing affordability.	Median sale price of houses over median personal income for the same year (2018). A measure of the living costs of a jurisdiction.	House price: Australian Bureau of Statistics, Residential property price indexes. Income: Australian Bureau of Statistics, Earnings and work, Personal income Australia, 2018.	5
Affordability	Disposable income.	The average equivalised household disposable income per week per state across all persons. A measure of the standard of living in a jurisdiction.	Australian Bureau of Statistics, Household income and wealth Australia, 2017-2018.	5
Government services and tax	Taxation per capita.	Taxation per capita at state and local government levels. A measure of state level taxation to reflect the direct costs incurred by businesses for government services in a jurisdiction.	Australian Bureau of Statistics, Taxation Revenue, 2020.	5
Infrastructure and connectivity	Ease of mobility.	Index measure of traffic and mobility in a location. An indicator of the cost (time spent) in travel within a state.	Numbeo, Traffic index by City 2021, accessed on 14/10/2021.	6

Theme	Metric	Description	Source	Rank
Productivity and stability	Productivity per capita.	Five-year average of gross state product over the five-year average of state population estimate from 2016 to 2020. A measure for state level productivity to reflect the efficiency of businesses.	GSP: Australian Bureau of Statistics, Australian National Accounts: State accounts, 2021. Population: Australian Bureau of Statistics, National state and territory population, 2020.	6
Productivity and stability	Productivity per hour worked.	Five-year average of GSP over five-year average of hours worked in all jobs from 2016 to 2020. A further measure for state level productivity to reflect the efficiency of businesses	GSP: Australian Bureau of Statistics, Australian National Accounts: State accounts, 2021. Hours worked: Australian Bureau of Statistics, Labour force, Australia, 2021.	6
Affordability	Quality of life.	Composite index measure for the quality of life in a location. A measure of the liveability of a jurisdiction, that takes into account safety, pollution, and cost of living.	Numbeo, Quality of life index by City 2021, accessed on 14/10/2021.	7
Government services and tax	Ease of starting a business.	Average ABLIS permits to start a grocery, restaurant, accounting service. A measure of the number of regulation compliance items (permits, approvals, and processes) required to start a business.	Australian Business License and Information Service (ABLIS), 2021.	7
Productivity and stability	Productivity in key sectors.	Annual GSP in tourism sector over persons employed in sector. A measure for state level productivity. Tourism was selected as it is a service export across all jurisdictions.	Tourism Research Australia, State tourism satellite account, 2019-2020.	7
Skills and labour	VET measure.	Proportion of population with a certificate III or above in education but below bachelor's degree in 2020 (15-64 years). A measure of education attainment for the purpose of skills availability in a jurisdiction.	Australian Bureau of Statistics, Education and work, 2021.	7
Government services and tax	Taxation per output.	Total taxes (state and local) per state over GSP for the same period. A measure of state level taxation to reflect the direct costs incurred by businesses for government services in a jurisdiction.	Taxation: Australian Bureau of Statistics, Taxation revenue, Australia, 2019-2020. GSP: Australian Bureau of Statistics, Australian National Accounts: State accounts, 2021	8
Government services and tax	Public sector size.	Five-year average from 2017 to 2021 of population employed in public sector as a proportion of total employed population. An indicator of the human capital in the public sector of jurisdiction and reflects the effectiveness of governance (based on the IESE Cities in Motion Index).	Australian Bureau of Statistics, Labour force, Australia, Detailed, 2021.	8



# Appendix B Detailed survey findings

The following contains the raw survey responses from over 700 VCCI members. The survey was conducted during November 2021 and open for a 14-day period. The survey has helped inform VCCI’s policy recommendations and provided significant insight into the costs of doing business in Victoria.

Figure 17 | Industry sector

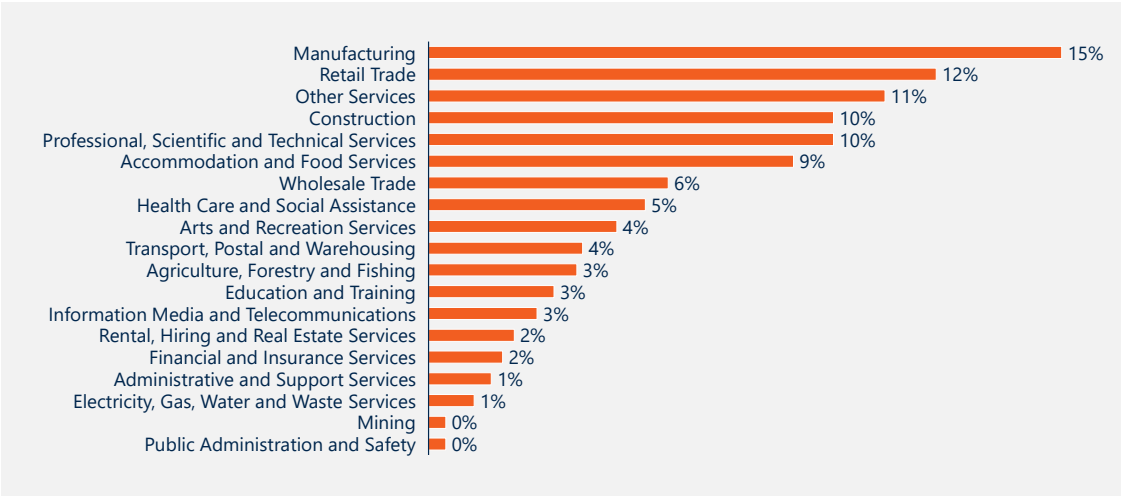


Figure 18 | Where in Victoria would you say most of your business activity takes place?

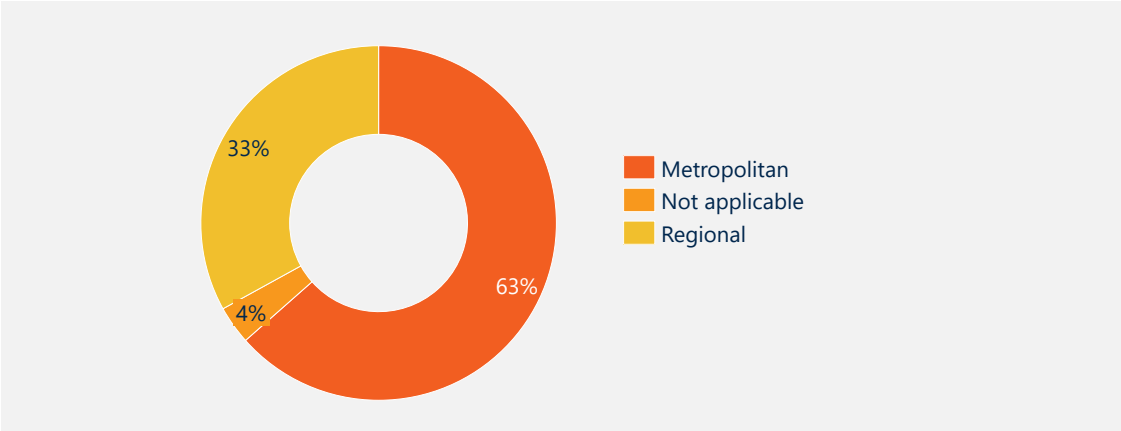


Figure 19 | Number of employees

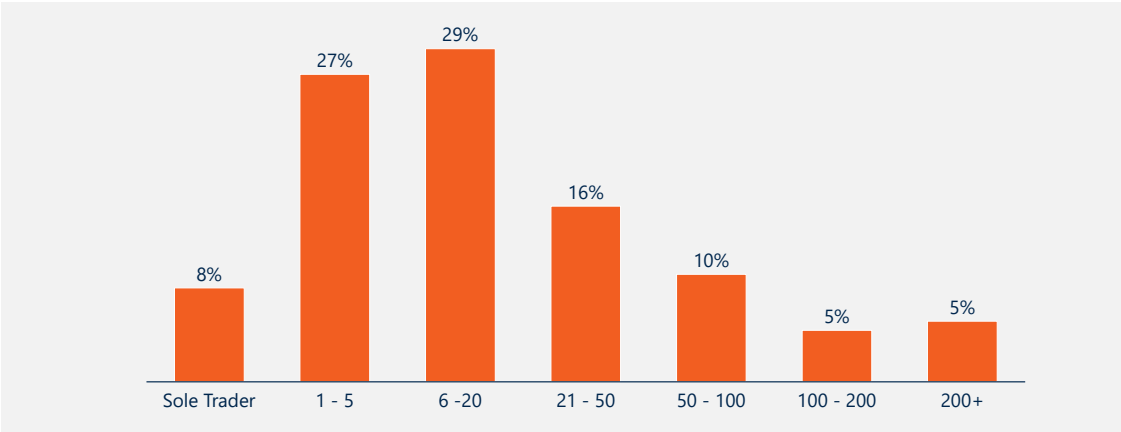


Figure 20 | Does your business also operate outside of Victoria?

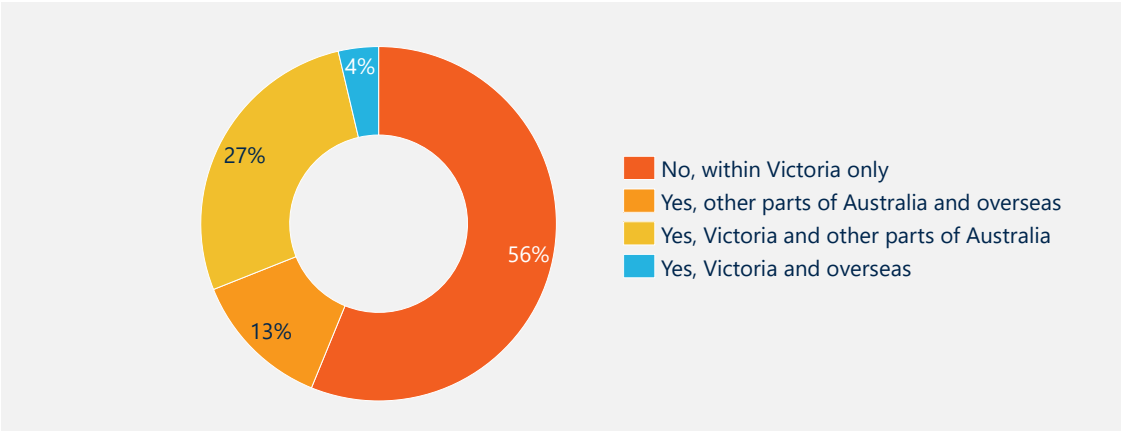


Figure 21 | Is time or money the bigger cost to doing business in Victoria?

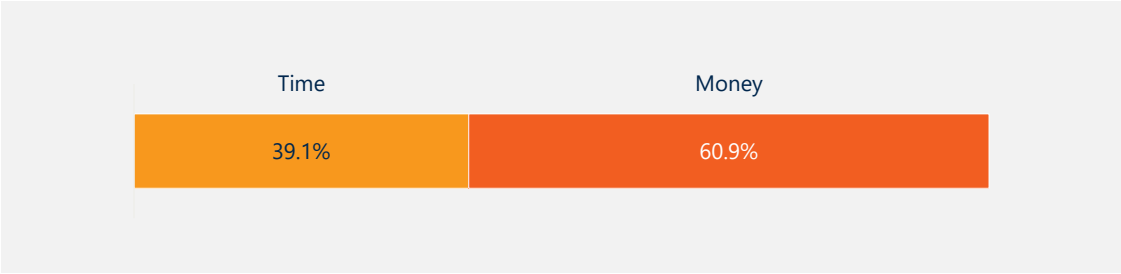


Figure 22 | Beyond COVID-19, is the government doing a good job of reducing the cost of doing business in Victoria?

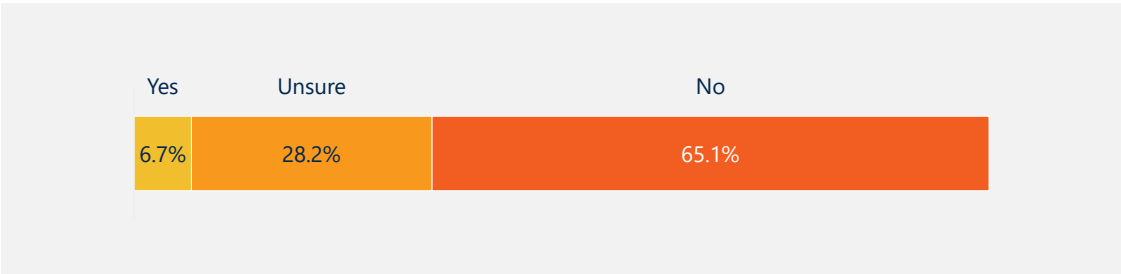


Figure 23 | Beyond COVID-19, is the government doing a good job of making Victoria a favourable place to do business?

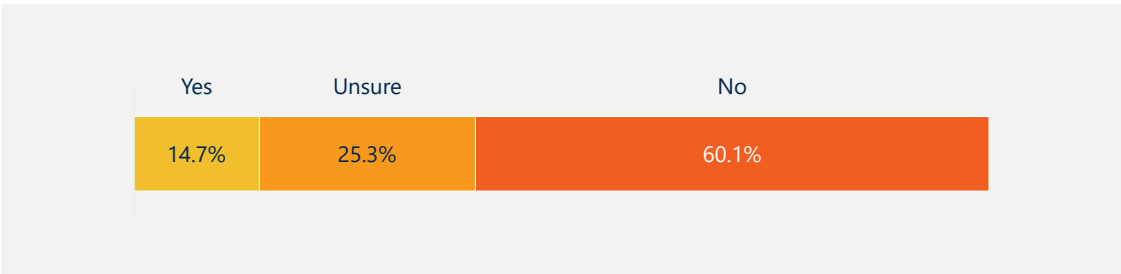
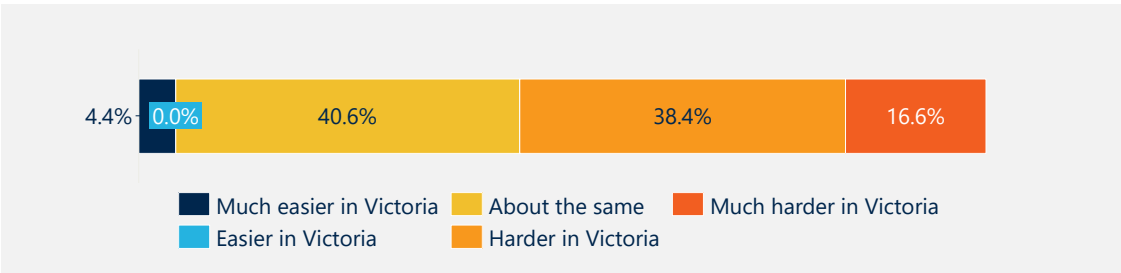


Figure 24 | Comparing to your operations outside of Victoria, would you say it is easier or harder to do business in Victoria?<sup>59</sup>



<sup>59</sup> This question only includes 203 Victorian business respondents that also have operations outside of Victoria.



Figure 25 | How often (if at all) is the culture of government regulators a barrier to doing business?

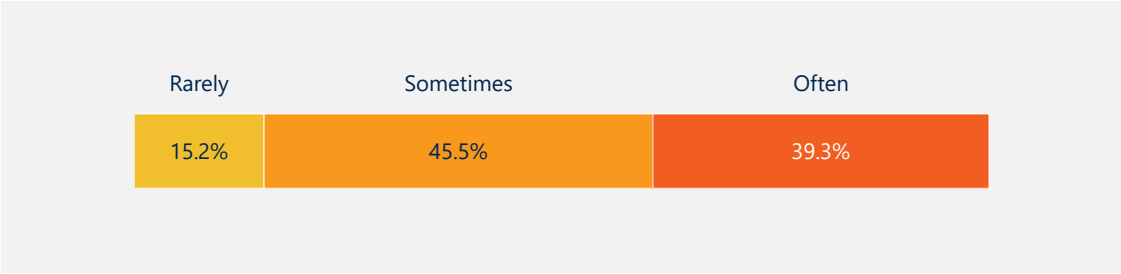


Figure 26 | How are the waiting periods for government processing and approvals changing over time?

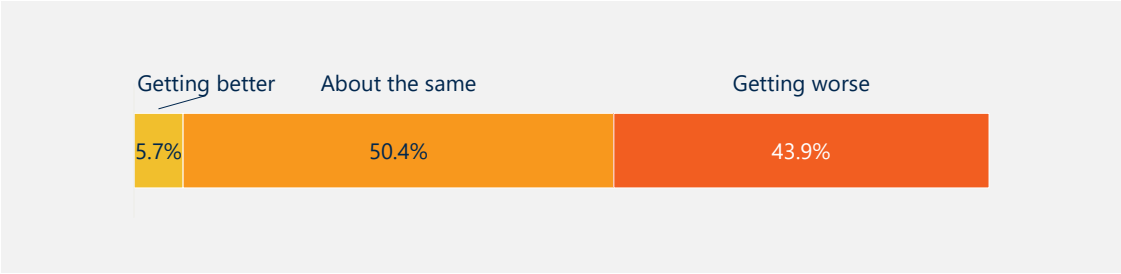


Figure 27 | How confident are you as a business owner in Victoria that you are meeting your regulatory obligations?



Figure 28 | How difficult is it for your business to get access to the skills and labour it needs?

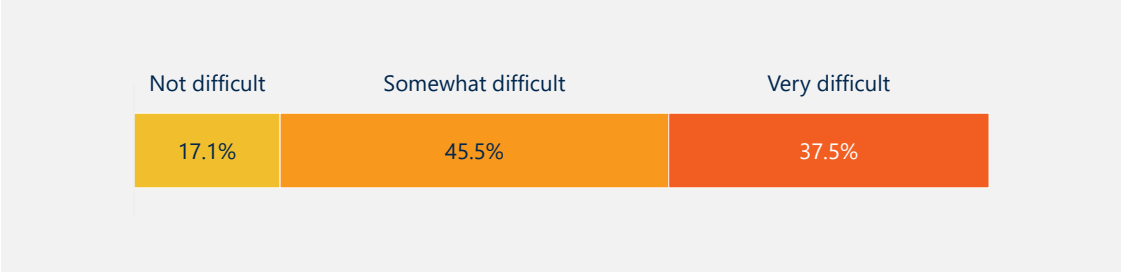


Figure 29 | How difficult is the process of getting access to credit?

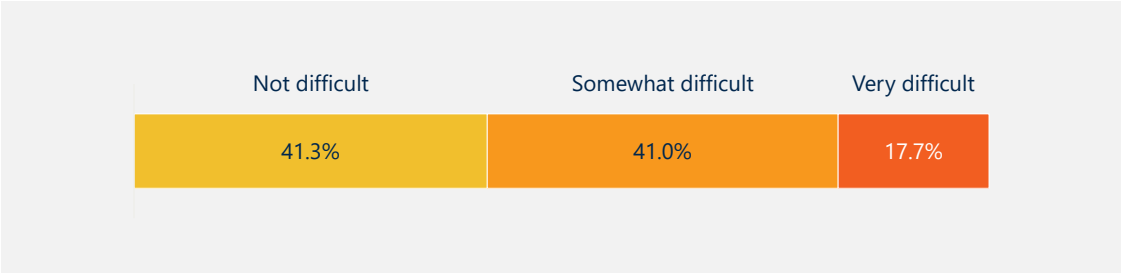


Figure 30 | As a business owner, I feel supported in managing my mental health and wellbeing

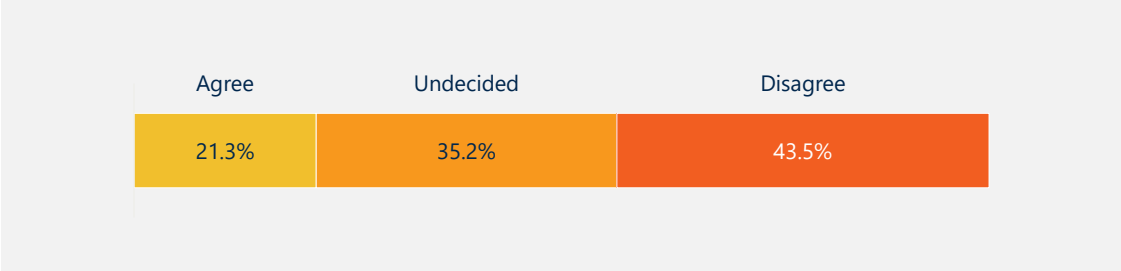


Figure 31 | Is your business getting value for money from the tax it pays in Victoria?

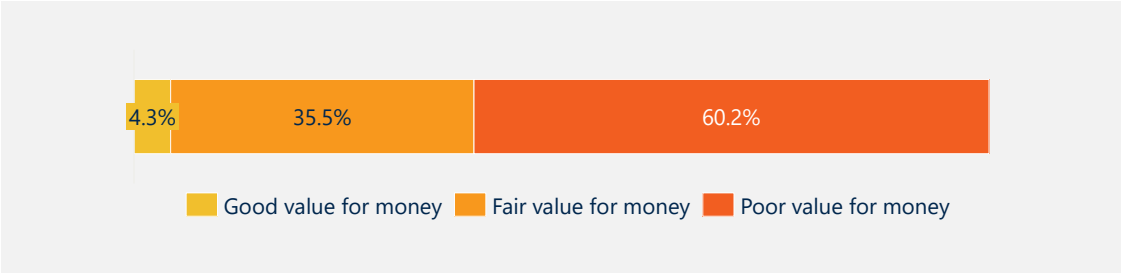


Figure 32 | Is your business getting value for money from the labour costs it pays in Victoria?

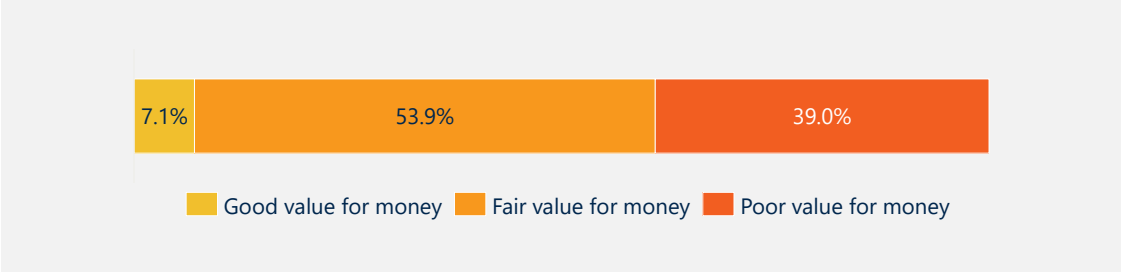


Figure 33 | Is your business getting value for money from the rent it pays in Victoria?

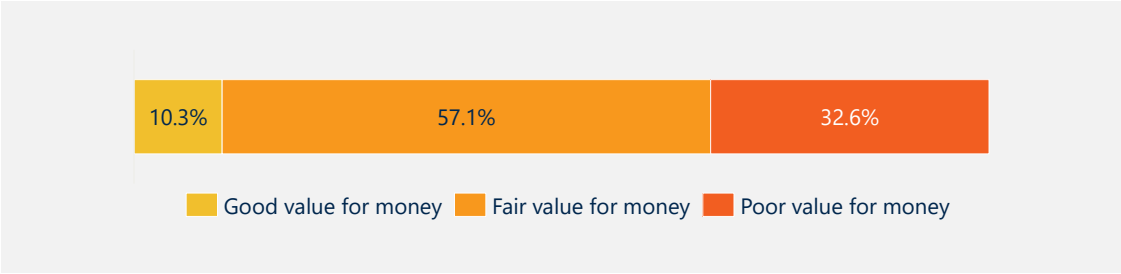


Figure 34 | Is your business getting value for money from the rent it pays in Victoria?

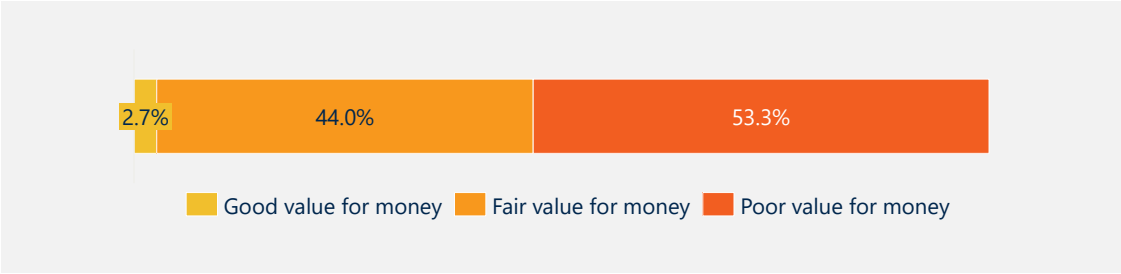
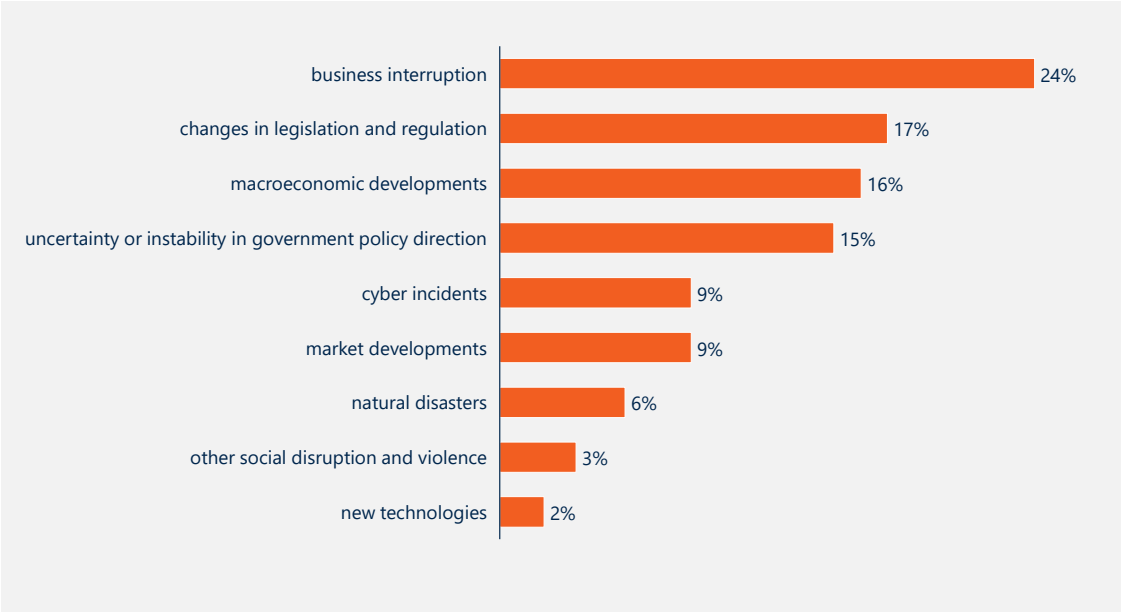


Figure 35 | Over the next 5 years, which of the following external risks are most likely to become a significant cost of doing business in Victoria? Please select up to three.



VCCI wishes to acknowledge and thank the following people and key stakeholders for their contribution:

- Taskforce Chairs Adrian Kloeden and Kate Mannix
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- VCCI members that participated in the survey
  - Nous Group
- The VCCI Policy and Advocacy team.