VACC Submission

2018-19 Federal Pre-Budget Submission to Treasury

14 December 2017

ABOUT VACC

The Victorian Automobile Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,000 members in over 20 retail automotive sectors that employ over 50,000 Victorians.

VACC members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialists, i.e. radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture), and automotive dismantlers and recyclers.

In addition to VACC, its sister organisations – the Motor Trade Associations, represent the automotive industry for their respective states.

CONTACT DETAILS

Steve Bletsos

Senior Research Analyst
Industrial Relations, Policy & Engagement

VACC

Level 7 | 464 St Kilda Road | Melbourne Vic 3004
P: 03 9829 1143 | **M:** 0438 385 881 | **F:** 03 9820 3401 | **W:** vacc.com.au

EXECUTIVE SUMMARY

The Victorian Automobile Chamber of Commerce (VACC) welcomes the opportunity to make a pre-Budget submission to Treasury as preparations are made for the 2018/19 Federal Budget.

Amongst its industry roles, VACC is charged with a responsibility to communicate to government where budgetary and planning matters adversely affect operations within industry, and in particular, amongst VACC member businesses.

VACC believes that strong fiscal management that encompasses a return to a federal budget surplus remains as one of the core imperatives and objectives of macroeconomic and fiscal policy for Australia. A return to surplus is not only critical in maintaining Australia's prized AAA credit rating, but also acts as a buffer against global and local economic shocks that may potentially undermine Australia's growth rate. A return to budget surplus is also critical for business confidence, by helping to support a positive environment for business investment, employment and productivity growth.

Almost a decade after the global financial crisis, Australia's budget deficit remains unacceptably high at around 2.5 per cent of GDP in 2016-17. Furthermore, it appears that current projections to return to budget surplus are based on increased tax receipts through wages growth, which is not guaranteed, as well as bracket creep. There are also serious doubts emerging within the business and broader community as to whether the current path to surplus by 2020-21 remains credible.

This submission presents many recommendations aimed at ensuring that a budget surplus is delivered. Among these include capping government spending to a maximum of 25 per cent of GDP, and maintaining the 2.5 per cent efficiency dividend on the public service.

VACC also reinforces the need for Federal Government to take urgent action to reduce the tax rate for all Australian businesses, not just those with an annual turnover of up to $50 million for whom tax cuts are presently legislated. Australia's business and corporate tax rate remains high by international standards and this acts as disincentive towards business investment, productivity and innovation in Australia.

Tax rates for all Australian businesses must be reduced to 25 per cent or less over the coming decade, as failure to do so will mean that Australia will remain one of only three advanced nations (along with Japan and Malta) that will have business tax rates in excess of 25 per cent.

This submission also addresses the need for measures to assist the predominantly small to medium sized businesses that dominate the retail motor industry. These include reforms to the Automotive Transformation Scheme to assist with the transition to electric and autonomous vehicles, as well as the abolishment or reform of the Luxury Car Tax.

Investment in apprenticeship training also remains a key priority for the automotive industry, as well as many other industries. There has been a steep reduction observed over recent years in government expenditure on vocational education and training, and this has manifested into declining numbers of apprentices and trainees commencing in automotive and most other trades nationally. This has created severe shortages of skilled personnel in what is a critical period of transition for the automotive industry in regard to the transition to electric and autonomous vehicles.

This submission also advocates the need for Federal Government to allocate greater resources towards the improvement of the teaching of literacy and numeracy skills in Australia, an area where Australia still lags behind other developed countries, to its detriment.

VACC also considers it a Federal Budget imperative that government continues to work further to reduce the administrative burden on businesses, including measures to reduce the rising cost of energy and utilities that are financially crippling many small businesses at present.

RECOMMENDATIONS

Recommendation 1:

That Federal Government expenditures be capped to a maximum of 25 per cent of GDP over the budget forward estimates to help ensure the achievement of a budget surplus by 2020-21.

Recommendation 2:

That the efficiency dividend be kept at 2.5 per cent to deliver savings on government department and agency operating costs, until at least the federal budget is in surplus.

Recommendation 3:

That the Federal Government commits towards the delivery of a 25 per cent tax rate for all Australian businesses.

Recommendation 4:

That funds remaining within the Automotive Transformation Scheme (ATS) be directed towards the automotive retail, service and repair sector to assist towards the development of the future skills capacity of the industry. This can be achieved through the provision of industry subsidies and employment incentives in preparation for the imminent transition to electric and autonomous vehicles.

Recommendation 5:

That the Luxury Car Tax be abolished or the threshold of the Luxury Car Tax be raised to a minimum of $125,000.

Recommendation 6:

The Federal Government commit to fund a full review of the ANZSCO and ANZSIC classifications immediately and ensure that there is a budget allocation in 2018/19 for the execution of such reviews.

Recommendation 7:

That the Federal Government set a renewed vision for vocational education and training and fund a national campaign to promote the value of apprenticeships to employers, job seekers and students.

Recommendation 8:

That the Federal Government acknowledge the underfunding of vocational education and training and set goals to achieve real growth in VET funding across all jurisdictions.

Recommendation 9:

That the overall cost burden associated with businesses employing apprentices is reduced through the provision of improved support measures and incentives to employers.

Recommendation 10:

Funds within the 2018-19 Federal Budget be allocated towards incentivising states and territories to implement common minimum literacy and numeracy standards throughout primary and secondary schools.

Recommendation 11:

That teachers should have specialised skills in STEM before being able to teach STEM programs.

Recommendation 12:

The Federal Government to encourage state and territory governments to invest more heavily in STEM programs to improve STEM proficiency in schools.

Recommendation 13:

That government continues to work further to reduce the administrative burden on businesses, including measures to reduce the rising cost of energy and utilities on businesses.

TABLE OF CONTENTS

1. INDUSTRY BACKGROUND

The automotive industry is a significant contributor to the Australian economy. Across all its constituent sectors it employs almost 380,000 Australians within 69,365 individual businesses, the majority of which are small and family owned businesses. In aggregate, these businesses contribute $37.1 billion in industry value added to the Australian economy, or approximately 2.2 per cent of Australia's Gross Domestic Product (GDP) (Table 1).

The automotive industry is also one of the largest employers of apprentices and trainees in Australia, with almost 30,000 apprentices and trainees commencing annually in automotive trades.

The needs of the automotive industry from a small business perspective are many, and given the economic significance of the industry, are an important consideration for the Federal Budget. This is all the more critical as the industry transitions over the next decade to a new era of electric and autonomous vehicles.

Table 1: Automotive Industry, Economic Summary 2015/16

Industry Sector	Employment (No.)	Businesses (No.)	Industry Value Added ($m)
Automotive Repair and Maintenance	142,632	37,406	9,452.7
Motor Vehicle Retailing	66,002	5,752	7,707.1
Motor Vehicle and Parts Manufacturing	43,627	3,054	3,826.1
Fuel Retailing	34,728	4,136	2,851
Motor Vehicle Parts and Tyre Retailing	28,295	4,288	2,211.9
Motor Vehicle and Parts Wholesaling	22,081	5,282	5,871
Other Specialised Machinery and Equipment Manufacturing	11,500	849	1,900
Passenger Car Rental and Hiring	7,997	1,624	1,705
Outdoor Power Equipment	4,670	1,290	250
Marine Equipment Retailing	3,365	829	219
Bicycle Retailing	4,500	987	950
Towing Services	3,052	2,465	203.8
Agricultural Machinery Retailing and Repair	6,916	1,403	N/A
Total	**379,365**	**69,365**	**37,148**

Source: VACC - Directions in Australia's Automotive Industry: An Industry Report 2017

KEY POSITIONS

2. THE ECONOMY AND FISCAL POLICY

VACC believes that a return to a federal budget surplus remains as one of the core imperatives and objectives of macroeconomic and fiscal policy for Australia. A return to surplus is not only critical in maintaining Australia's prized AAA credit rating, but also acts as a buffer against global and local economic shocks that may potentially undermine Australia's economic growth rate. A return to budget surplus is also critical for business confidence in helping support a positive environment for business investment, employment and productivity growth.

It is a fact however, that almost a decade after the global financial crisis, Australia's budget deficit remains unacceptably high at around 2.5 per cent of GDP in 2016-17. Furthermore, it appears that current projections to return to budget surplus are based on increased tax receipts through wages growth, which is not guaranteed, as well as bracket creep. There are also serious doubts emerging within the business and broader community as to whether the current path to surplus by 2020-21 remains credible. This growing uncertainty presents risks to business confidence, future capital investment and employment decisions by small and larger businesses.

To eliminate business uncertainty and its associated impacts, VACC believes that a more targeted fiscal policy is necessary to credibly reinforce the attainment of a budget surplus.

VACC therefore recommends that the following fiscal policy measures be considered for implementation by Federal Government:

1. ***Capping government expenditures to a maximum of 25 per cent of GDP***

Government expenditure as a proportion of GDP is currently at 25.6 per cent. This is well above the long-term average of 24.2 per cent. A policy of capping government expenditure to a maximum of 25 per cent of GDP over the budget forward estimates and beyond, would assist in reducing the structural deficit and make the achievement of a surplus by 2020-21 more likely.

2. ***Maintaining the public service efficiency dividend at 2.5 per cent***

VACC believes that recent federal announcements to reduce the efficiency dividend on government departments and agencies to 2 per cent in 2018-19 and 1.5 per cent in 2019-20 may cause unnecessarily delay towards the attainment of a budget surplus. VACC therefore recommends that the efficiency dividend be kept at 2.5 per cent to deliver savings on government department and agency operating costs, until at least the federal budget is in surplus.

The adoption of the above measures will help ensure that the Federal Budget will be brought into surplus by 2020-21, with added benefits in terms of boosting business confidence and investment into more productive and innovative areas of the economy.

3. ***A commitment towards the delivery of a 25 per cent tax rate for all Australian businesses***

VACC reinforces the need for Federal Government to take urgent action to reduce the tax rate for all Australian businesses, not just those with an annual turnover of up to $50 million for whom tax cuts are presently legislated. Australia's business and corporate tax rate remains high by international standards, and this acts as a disincentive towards business investment, productivity and innovation in Australia.

Tax rates for all Australian businesses must be reduced to 25 per cent or less over the coming decade, as failure to do so will mean that Australia will remain one of only three advanced nations (along with Japan and Malta) that will have business tax rates in excess of 25 per cent.

3. REFORM OF THE AUTOMOTIVE TRANSFORMATION SCHEME

The Australian automotive industry is experiencing profound change, way beyond the closure of local car manufacturing. Serious skills shortages across the automotive industry and the transition towards electric and autonomous vehicles will challenge both the skills capability of the industry and the viability of existing business models.

The automotive retail, service and repair sector is predominantly made up of many thousands of small and independent owned businesses whose viability is at risk in the transition towards autonomous vehicles and the impact of business disruptors over the next few years. To mitigate the effects of such disruption, these businesses will require support on many levels. The delivery of training in battery and electric vehicle technology will increase in demand. Government support to roll out that training will again be required similarly to the National Workforce Development Fund program delivered some years ago.

In addition, severe skill shortages remain in key areas, some of which are thin market areas. Candidates often attracted to the industry have already attained 21 years of age or have previously completed training at certificate III level in another industry. These characteristics make those individuals unattractive to the industry as higher adult rates and full training fee obligations price them out of the employment market. In this industry, the higher labour costs cannot be passed onto the consumer as insurers and a price conscious consumer market makes it difficult for the industry to accurately recoup the cost of doing business.

It is therefore strongly recommended that funds remaining within the Automotive Transformation Scheme (ATS) be directed towards the automotive retail, service and repair sector to assist towards the development of the future skills capacity of the industry by:

- ***Providing wage subsidies to make those candidates attractive to invest in their training***
- ***Provide subsidies like the National Workforce Development Fund to encourage reinvestment by industry into the battery/ electric vehicle program already developed***
- ***Provide incentives to encourage employer investment in training to employees over the age of 21 years of age and those automotive workers displaced by the closure of vehicle manufacturing***

4. LUXURY CAR TAX

The Luxury Car Tax (LCT) threshold for the 2017-18 financial year is listed at $65,094 by the Australian Taxation Office. This threshold is inconceivably low and affects many vehicles that are not in any way deemed to be luxury vehicles. This includes four-wheel drive vehicles that meet the needs of rural buyers, such as the Mitsubishi Pajero, Toyota Land Cruiser and Nissan Patrol, that are priced above the LCT threshold. These vehicles are essential for performing transport tasks on roads and conditions that are often unsuitable for regular vehicles. This consequently penalises consumers in rural and regional communities, who are often the purchasers of such vehicles for work purposes.

VACC strongly asserts that the Luxury Car Tax (LCT) is unfair and discriminatory towards motor vehicle dealers and consumers. It is also inconceivable that motor vehicles are targeted with an LCT whereas other goods traditionally deemed as 'luxury' items such as yachts and jewellery, are not taxed.

VACC therefore recommends that the Federal Government act to:

- ***Abolish the Luxury Car Tax altogether, or***
- ***Raise the threshold of the Luxury Car Tax to a minimum of $125,000***

5. REVIEW OF ANZSCO AND ANZSIC

VACC asserts that both the statistical occupational classification (ANZSCO) and the industry classification (ANZSIC) as maintained by the Australian Bureau of Statistics (ABS), are out of date and in desperate need of reform.

From an automotive industry and individual business perspective, both classifications work poorly in that:

- ANZSCO fails to capture data relating to the full range of automotive occupations within the economy and their skill requirements, including the emergence of new skilled occupations as a result of the transition to electric and autonomous vehicles
- ANZSIC fails to adequately identify employment levels and other metrics for the automotive industry. This is because data for the automotive industry is spread across numerous ANZSIC divisions and amalgamated with data from other industries. This makes the retrieval of industry specific information problematic for the automotive industry, as well as for many other industries.

It has been many decades since the ANZSCO and ANZSCO classifications have witnessed a major review. Previous reviews of both these statistical classifications by ABS have been only minor in nature, and failed to instigate necessary structural reform. This has resulted in incomplete and inaccurate data at an occupational and industry level, to the detriment of industry and policy makers.

VACC therefore strongly recommends that:

- ***The Federal Government commit to fund a full review of the ANZSCO and ANZSIC classifications immediately and ensure that there is a budget allocation in 2018/19 for the execution of such reviews.***

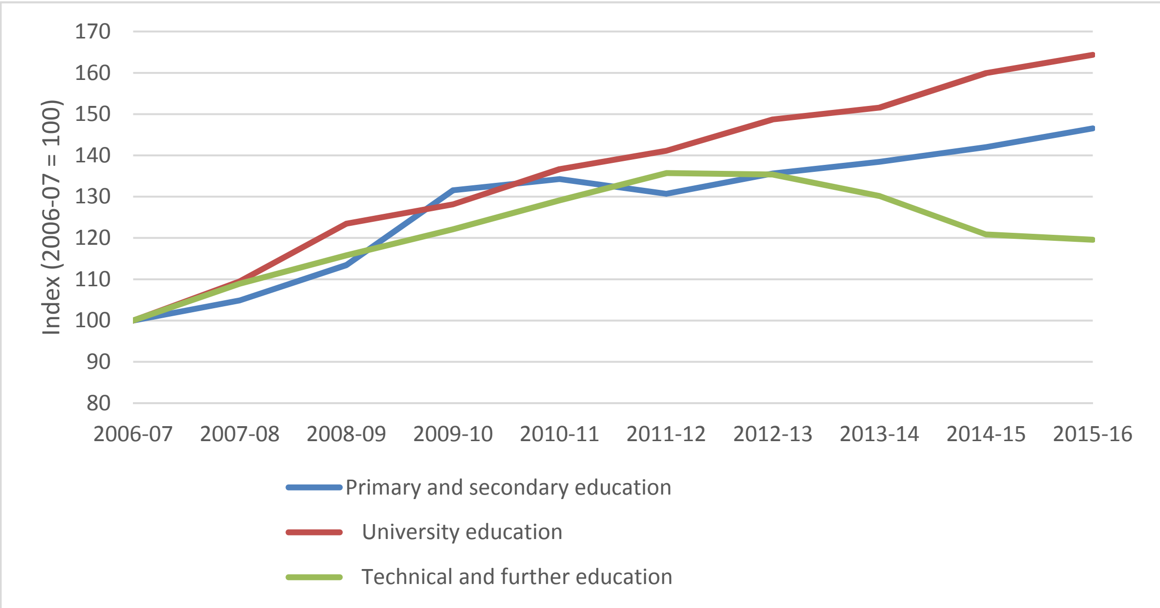
6. APPRENTICESHIP TRAINING

Industry-led apprenticeship training continues to remain the main source of skilled labour for automotive businesses. Given that the automotive industry is on the verge of unprecedented technological change as seen through the rapid transition towards electric and autonomous vehicles, the importance of relevant and up-to date-training for the industry is critical.

Despite this industry need, VACC observes that the proportion of funding across all levels of government towards Vocational Education and Training (VET), as seen through the funding of TAFEs, has been declining annually since 2012/13. By contrast, government expenditure in primary, secondary and tertiary education has been rising over the period as shown in Figure 1.

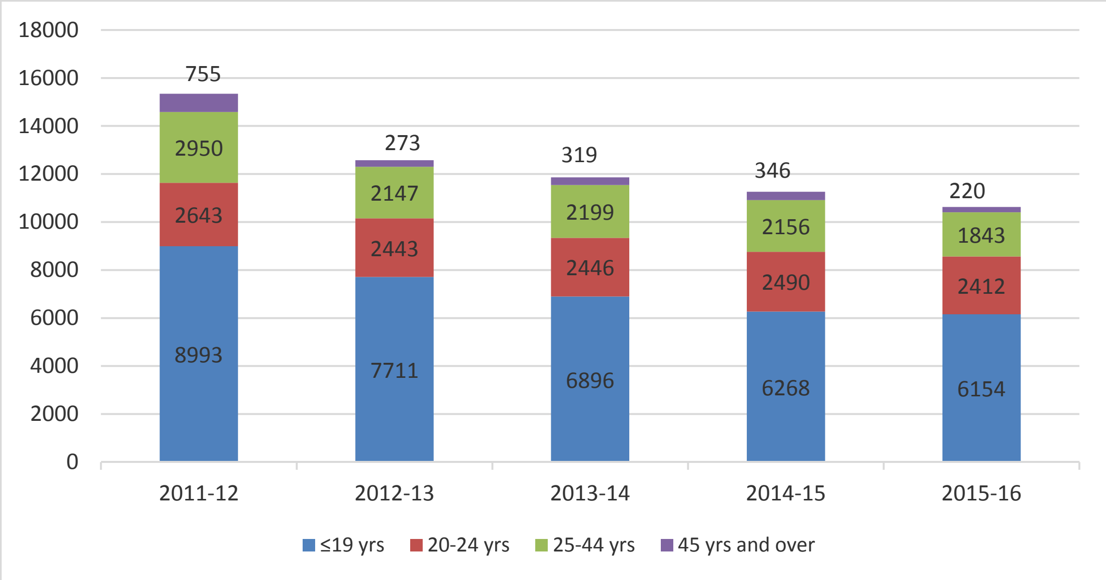
VACC has witnessed a strong correlation between the decline in VET funding and a reduction in annual commencements of automotive apprentices and trainees over the respective period. This decline is particularly pronounced within the younger age cohort (19 years and below) as shown in Figure 2.

Figure 1: Growth in expenditure on education by sector – 2006-07 to 2015-16



Source: ABS Government Finance Statistics, Australia, Cat. No. 5518.0.55.001

Figure 2: Apprentices and Trainees Annual Commencements - Automotive Retail, Service and Repair Training Package, 2011-16



Source: NCVER data

The consequences of these interrelated outcomes have been immense for the automotive industry. The automotive industry is currently experiencing a national shortage of 35,000 skilled workers and automotive businesses have described this as major obstacle to business expansion, productivity and employment growth. This shortage of skilled labour has also exacerbated customer waiting times for vehicle servicing and repairs, the sourcing of vehicle parts, and has increased labour costs for many businesses.

It is estimated that the automotive industry requires approximately 14,000 new entrants annually to balance natural attrition levels with business demand within the automotive labour market.

Annual apprentice and trainee commencements within the automotive industry are currently at 10,629 which is well below industry requirements and this training deficit has persisted since 2011/12. For many small business employers, the total costs involved in engaging an apprentice have also become very prohibitive and are a key barrier to apprentice uptake within the labour market. These issues will only be compounded with the transition to electric and autonomous vehicles and will place further stresses on the VET system, businesses and the labour market.

VACC therefore views investment in VET as a critical priority for the Federal Government. There has been a lack of consistency in national policy leadership in VET, with nine federal skills Ministers in less than five years. Also, a lack of cohesion between States and the Federal Government on VET funding objectives has also hindered reform in apprenticeships and the VET system more broadly. With higher education uncapped and demand driven, more school leavers are opting for university and more training providers are gravitating to the higher education system as it has greater funding certainty. The VET system has therefore effectively become the poor cousin to higher education and the perception of its value is much lower than the reality. Both education systems are equally valuable.

VACC therefore proposes that the Federal Government allocate appropriate investment in apprenticeships and the VET system within the 2018-19 Federal Budget. Specifically, VACC recommends the following:

- ***That the Federal Government set a renewed vision for vocational education and training***

- ***That the Federal Government fund a national campaign to promote the value of apprenticeships to employers, job seekers and students***

- ***That the Federal Government acknowledge the underfunding of vocational education and training and set goals to achieve real growth in VET funding across all jurisdictions***

- ***That the overall cost burden associated with businesses employing apprentices is reduced through the provision of improved support measures and incentives to employers.***

The adoption of the above measures will not only increase the attractiveness of apprenticeships and trade careers across all industries, but also help arrest the slide in apprenticeship and trainee commencements by reducing the cost of apprentice hiring and incentivising the uptake of apprentice employment amongst small and medium businesses.

7. LITERACY AND NUMERACY

The Australian economy, along with most advanced economies in the world, is being transformed through the emergence of new technologies and changing job roles and skills requirements. In the automotive industry, this is epitomised by the gradual transition to electric and autonomous vehicles and the rise of new skills and job roles aligned with these new technologies.

It is universally recognised that a key element that will underpin technological transformation across all industries is the quality and teaching of literacy and numeracy skills towards students, and particularly the quality of science, technology, engineering and maths (STEM) skills taught in schools. The teaching of STEM skills is acknowledged as an area where Australia lags internationally compared to other developed countries. A contributing factor to this situation is the disparity in the curriculum and teaching standards of STEM skill subjects across Australian schools and jurisdictions.

Whilst some Federal and State Government assistance has been provided towards the teaching of STEM programs in schools in recent years, further support is required to teachers within the classroom. Currently, a minority of Australia's primary school teachers have an educational background in a STEM discipline. In 2011, only 16 per cent of Year 4 students were taught science by a teacher who specialised or majored in science, and only 20 per cent had a teacher who specialised in mathematics. More recently in the *State of Our Schools 2016 Report*, it was revealed that 51 per cent of schools reported having maths and science classes taught by teachers who were not fully qualified in these specialist areas.

The result of these deficiencies has been that Australian secondary school graduates are often ill-equipped or unsuitable to meet both the expectations of employers and requirements of specific job roles and this acts as a disincentive for employers to hire young people. This is also seen as a contributing factor towards the declining commencement rates of young people within the automotive industry, as well as other industries.

VACC asserts that the Federal Government can and should play a greater role in addressing these critical issues. VACC therefore recommends that:

- ***Funds within the 2018-19 Federal Budget be allocated towards incentivising states and territories to implement common minimum literacy and numeracy standards throughout primary and secondary schools***

- ***That teachers should have specialised skills in STEM before being able to teach STEM programs***

- ***The Federal Government encourage state and territory governments to invest more heavily in STEM programs to improve STEM proficiency in schools***

These measures will help strengthen problem solving skills, innovative and creative thinking and digital skills amongst future generations that are necessary in order to adapt to this rapidly changing world.

8. ENERGY, UTILITIES AND BUSINESS RED TAPE REDUCTION

- ***VACC recommends that government continue to work further to reduce the administrative burden on businesses, including measures to reduce the rising cost of energy and utilities that are financially crippling many small businesses at present.***