

VACC Submission

2019-20 Victorian Pre-Budget Submission

January 2019



ABOUT VACC

The Victorian Automobile Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,300 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.

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EXECUTIVE SUMMARY

The Victorian Automobile Chamber of Commerce (VACC) welcomes the opportunity to make a pre-budget submission as preparations are made for the 2019/20 Victorian State 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.

This submission presents many recommendations that addresses the need for measures to assist the predominantly small to medium sized businesses that dominate the retail motor industry. Among these include additional reform of the payroll tax system in Victoria and further efforts 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.

In line with practices in other states, VACC also advocates the need for reform of the *Victorian Duties Act 2000*, with the intention of providing Licenced Motor Car Traders (LMCTs) exemptions from the payment of duty on the ancillary use of demonstrator vehicles. Additionally, there is also the need for a modern electronic-based vehicle roadworthy certificate system, to replace the antiquated paper-based vehicle roadworthy certificate system still used in Victoria.

VACC also urges that the Victorian Government allocate appropriate funding within the 2019-20 Budget to improve regulation and prosecution of unlicensed motor car traders. This includes a broad audit of non-licenced personnel and enterprises that are trading in vehicles, vehicle parts and vehicle recycling.

Greater investment in apprenticeship training remains a key priority for the automotive industry and VACC welcomes recent government initiatives in this area. Given the severity of skill shortages afflicting automotive and many other industries however, VACC believes that it is essential that the Victorian government engage with industry and fund a campaign to widely promote the value of apprenticeships to employers, jobseekers, parents and students.

Amongst other matters, this submission also advocates the need for Victorian Government to allocate funds towards the implementation of minimum literacy and numeracy standards throughout all Victorian primary and secondary schools, and invest more heavily in STEM programs. This will help strengthen problem solving skills, innovative and creative thinking and digital skills amongst future generations that are necessary to adapt to a rapidly changing world.

RECOMMENDATIONS

Recommendation 1:

In line with the recommendation of the Henry Tax Review (Australia's Future Tax System, 2010), to abolish payroll tax altogether in Victoria, or raise the payroll tax threshold immediately to a level that is competitive with most major states.

Recommendation 2:

That the Victorian government continue to work much 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.

Recommendation 3:

That funding allocations are made within the 2018-19 Victorian Budget towards the development and implementation of an electronic roadworthy system, that also encapsulates electronic storage of vehicle odometer readings to improve consumer protections.

Recommendation 4:

That the Victorian Government undertake reform of Chapter 9, S.231 of the Victorian Duties Act 2000, with the intention of providing exemptions for the ancillary use of vehicles that are currently categorised as demonstrator vehicles.

Recommendation 5:

That the Victorian Government allocate appropriate funding within the 2018-19 Budget to improve regulation and prosecution of unlicensed motor car traders. This includes a broad audit of non-licensed personnel and enterprises that are trading in vehicles, vehicle parts and vehicle recycling.

Recommendation 6:

That the Victorian Government engage with industry and fund a targeted campaign to promote the value of apprenticeships to employers, job seekers, parents and students.

Recommendation 7:

The Victorian Government take a leadership role on end-of-life-vehicle policy by funding trials of a self-regulated ELV program. This would work to ensure the disposal of ELVs has minimal environmental impact.

Recommendation 8:

That the Victorian Government provide increased funding to the Victorian Small Business Commission for dispute resolution.

Recommendation 9:

That the Victorian Government provide greater resources to improve technological connectivity in outer regional Victoria. This will enhance the use of new technology farm machinery for individuals and communities with a specific need to interconnect with other equipment and infrastructure.

Contents

ABOUT VACC	2
EXECUTIVE SUMMARY	3
RECOMMENDATIONS	4
1. Industry background.....	6
2. The economy and fisca policy.....	7
3. Reducing costs for Victorian businesses	7
4. Electronic Road Worthy Certificates	7
5. Reform of the Duties Act 2000	8
6. Regulation of unlicensed motor car traders	9
7. Increased promotion of apprenticeships	9
8. End-of life vehicle disposal.....	10
9. Improved business dispute resolution.....	10
10. Other matters	11

1. INDUSTRY BACKGROUND

The automotive industry is a significant contributor to the Victorian economy. Across all its constituent sectors it employs approximately 103,000 Victorians within 17,961 individual businesses, the majority of which are small and family owned businesses. In aggregate, these businesses contribute \$9.7 billion in industry value added to the Victorian economy, or approximately 2.6 per cent of Victoria's Gross State Product (GSP) (Table 1).

The automotive industry is also one of the largest employers of apprentices and trainees in Victoria, with around 9,000 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 within the State 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: Victorian Automotive Industry, Economic Summary 2015/16

Industry Sector	Employment (No.)	Businesses (No.)	Industry Value Added (\$b)
Automotive Repair and Maintenance	31,971	9,576	2.4
Motor Vehicle Retailing	18,331	1,471	2.0
Motor Vehicle and Parts Manufacturing	24,618	1,210	1.0
Fuel Retailing	6,925	1,036	0.8
Motor Vehicle Parts and Tyre Retailing	6,167	974	0.6
Motor Vehicle and Parts Wholesaling	7,054	1,537	1.5
Passenger Car Rental and Hiring	2,152	437	0.5
Outdoor Power Equipment	1,169	323	0.1
Marine Equipment Retailing	560	138	0.1
Bicycle Retailing	1,280	281	0.3
Towing Services	751	606	0.1
Agricultural Machinery Retailing and Repair	1,832	372	0.3
Total	102,810	17,961	\$9.7 billion

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

KEY POSITIONS

2. THE ECONOMY AND FISCAL POLICY

VACC commends the Victorian Government on its management of the Victorian economy to date. The Victorian economy has maintained momentum since the 2018-19 Budget, with real GSP growing around trend and supported by robust population and employment growth, low interest rates and a generally supportive global economic environment.

Whilst there are some risks associated with government projections, particularly in terms of taxation revenues, population growth and demand for government services, VACC believes that the fact that Victoria will enter 2019-20 in a good financial position allows the government some leeway to address key issues affecting Victoria's automotive industry and wider business community, as presented in this submission.

3. REDUCING COSTS FOR VICTORIAN BUSINESSES

Whilst VACC commends the Victorian Government on recent reforms to payroll tax, it is still the case that for many small and medium size automotive businesses, payroll tax remains a considerable financial and regulatory impost and this acts a disincentive towards business investment and employment growth.

A key problem is the fact that Victoria's current payroll tax threshold of \$650,000 remains well below that of most other states. New South Wales, has a payroll tax threshold of \$750,000, Western Australia \$850,000, Queensland \$1.1 million. Other smaller states and territories have payroll tax thresholds well in excess of \$1 million.

VACC urges greater reform on payroll tax from the Victorian Government in the 2019-20 Budget, to ensure Victoria remains a competitive place to do business.

Specifically, VACC recommends that:

Recommendation 1:

Victoria's payroll tax threshold should be lifted to \$850,000 per annum, thereby aligning more closely with other states and territories, to encourage greater private capital investment and jobs growth.

Other key costs that remain relatively high for Victorian businesses include energy and utility charges, waste levies, workers compensation premiums and other regulatory costs, that erode the competitive position of Victorian businesses relative to other jurisdictions.

Recommendation 2:

VACC recommends that the Victorian government continue to work much 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.

4. ELECTRONIC ROAD WORTHY CERTIFICATES

VACC members have reported increased levels of frustration through the continuing use of an antiquated, paper-based vehicle roadworthy certificate (RWC) system in Victoria. The paper-based RWC system poses numerous impediments and inefficiencies for automotive businesses and consumers. This includes unnecessary red tape and productivity losses for automotive repairers, and likely inefficiencies for VicRoads.

New South Wales has successfully adopted an electronic (E-Roadworthy) system and this has streamlined operations for automotive businesses within that state. A further benefit of moving to an e-Roadworthy system is that it has the potential to stamp out odometer fraud which is a detriment to consumers, automotive businesses and Victoria Police. This can be achieved by the simultaneous electronic database storage of vehicle odometer readings as part of an e-Roadworthy system.

This would help alleviate odometer fraud as the database could be checked in real time for odometer reading integrity. Whilst the current paper based RWC system in Victoria captures information such as vehicle odometer readings, these are not included within VicRoads motor vehicle records.

It can also be expected that as the implementation costs associated with an e-Roadworthy system are capitalised over time, there is the expectation of significant downstream savings available for the Victorian Government, VicRoads and Victorian automotive businesses.

VACC recommends that:

Recommendation 3:

Funding allocations are made within the 2019-20 Victorian Budget towards the development and implementation of an electronic roadworthy system, that also encapsulates electronic storage of vehicle odometer readings to improve consumer protections.

5. REFORM OF THE DUTIES ACT 2000

A key anomaly observed by VACC relates to the treatment of *loan* or *courtesy vehicles* within the *Duties Act 2000*.

The Duties Act charges duty on an application for registration or transfer of registration of a motor vehicle, unless an exemption applies. Duty is calculated on the dutiable value of a motor vehicle.

Sections 231 (1) and 231 (2) (a) (ii) of the Duties Act provide exemptions from duty for licensed motor car traders (LMCTs) for vehicles that are used as *demonstrator vehicles*. Demonstrator vehicles are motor vehicles that are available and used for demonstration to prospective purchasers for sale of vehicles of the same class. This exemption reflects the Victorian Government's position that motor vehicle dealers should not be disadvantaged in relation to the payment of duty compared to other businesses, simply because the essence of their business is the acquisition and sale of motor vehicles.

Whilst demonstrator vehicles are exempt from duty under the *Duties Act*, *loan* or *courtesy vehicles* are not exempt from duty, and this represents a key anomaly and unnecessary financial cost for LMCTs and consumers. A *loan vehicle* is where a motor vehicle is provided by the dealer to a customer while their vehicle is being serviced or repaired.

It is often the case, that LMCTs provide loan or courtesy vehicles on the same basis or interchangeably with demonstrator vehicles. That is, whilst a customer's vehicle is being serviced they are often supplied with a newer loan vehicle of the same or higher class for the purposes of marketing and up-selling that newer vehicle to the customer. This is particularly the case when a demonstrator vehicle of the same vehicle class may not be available. The sale of the loan vehicle will attract duty however, whereas a demonstrator vehicle will not, even though the respective purposes of each vehicle are the same.

This anomaly has been recognised and rectified within other jurisdictions. Most recently, the Tasmanian Government as part of its business red tape reduction program, instigated a legislative amendment to the Tasmania Duties Act 2001, (*Amendment (Motor Vehicle Industry Red Tape Reduction) Act 2016*) – to exempt LMCTs from the payment of duty on courtesy vehicles. This amendment is embodied within *Section 204 (2)(a) and (b) of the Tasmania Duties Act 2001*, which states that licenced motor vehicle traders are exempt from Duty where:

(2) *A motor vehicle is acquired for an exempted use if the motor vehicle –*

(a) is a new motor vehicle and it is acquired for use as a demonstrator vehicle or as a courtesy vehicle, or for use both as a demonstrator vehicle and as a courtesy vehicle; or

(b) is a used motor vehicle and it is acquired for resale in the ordinary course of business

VACC believes that the Victorian Government should instigate reform of the Duties Act in Victoria, similar to that undertaken by Tasmania, as a fast track option to rectify the costly anomaly faced by Victorian automotive businesses and consumers.

VACC strongly recommends that the Victorian Government act to:

Recommendation 4:

Undertake reform of Chapter 9, S.231 of the Victorian Duties Act 2000, with the intention of providing exemptions for the ancillary use of vehicles that are currently categorised as demonstrator vehicles.

6. REGULATION OF UNLICENSED MOTOR CAR TRADERS

VACC urges the Victorian Government to make allocation in the 2019-20 Budget for improved regulation and prosecution of unlicensed motor car traders. Legitimate licensed motor car traders (LMCT's) are reportedly finding it more difficult to achieve sustainability against unfair competition from growing numbers of operators who have no obvious or outward appearance of compliance with regulatory requirements or established industry standards. This issue has gained prominence in recent years with a proliferation of enterprises working under the guise of scrap metal dealers, who are actually dealing in the sale and dismantling of motor vehicles.

By their nature and business design, unlicensed traders avoid regulation and its associated costs, with limited oversight by the state government. Such widespread non-compliance assists unscrupulous operators to launder stolen vehicles through motor wreckers or scrap metal dealers with little or no risk.

VACC has on many occasions advised the Victorian Government and the Victorian Law Reform Commission on these matters, however discussions held to date have not resulted in any significant change and this situation has further encouraged the growth of a secondary and unregulated car parts market.

To protect the sustainability of legitimate licensed motor car traders, ensure regulatory compliance (including environmental, health and safety and employment conditions) as well as protect industry standards, VACC recommends the following:

Recommendation 5:

That the Victorian Government allocate appropriate funding within the 2019-20 Budget to improve regulation and prosecution of unlicensed motor car traders. This includes a broad audit of non-licensed personnel and enterprises that are trading in vehicles, vehicle parts and vehicle recycling.

7. INCREASED PROMOTION OF APPRENTICESHIPS

Since 2011/12, there has been a steady decline in automotive apprentice commencement and completion rates in Victoria. The consequences of this is that there are currently around 7,000 jobs that cannot be filled in the automotive industry.

VACC argues that raising the profile of automotive apprenticeships has flow-on benefits in improved commencement and completion rates for automotive apprenticeships. This is essential in closing the skills shortages experienced across the automotive industry.

Job seekers and school leavers need quality careers advice, with a focus on the viability and respectability of an automotive trade career. This advice includes informing parents, teachers and other youth leaders who are the primary influence in a student's career choice. Automotive apprenticeships need to be promoted as a respected and credible career path, particularly with vibrant new technologies such as electric and autonomous vehicles on the horizon.

VACC would therefore encourage the Victorian Government to initiate the following:

Recommendation 6:

That the Victorian Government engage with industry and fund a targeted campaign to promote the value of apprenticeships to employers, job seekers, parents and students.

8. END-OF-LIFE VEHICLE DISPOSAL

Australia remains the only developed country not to have a policy dealing with end-of-life vehicles (ELVs). The unfortunate result of this is that approximately 63,000 tonnes of plastic emanating from ELVs are sent to landfill every year in Victoria alone, as such plastic often remains difficult and un-economic to recycle.

Recognising the environmental and economic concerns related to the disposal of ELVs, VACC recommends that the Victorian Government take this issue seriously and work towards a nationally implemented ELV plan, with Victoria taking a leadership role by trialling a self-regulated ELV program.

Recommendation 7:

The Victorian Government take a leadership role on end-of-life-vehicle policy by funding trials of a self-regulated ELV program. This would work to ensure the disposal of ELVs has minimal environmental impact.

VACC also recommends that the Victorian Government consider and provide remedies to the following matters affecting automotive businesses and the general community in Victoria:

9. IMPROVED BUSINESS DISPUTE RESOLUTION

VACC has observed a growing number of legal disputes involving small and larger businesses, and in particular, between vehicle body repair businesses and insurance companies. This has resulted in considerable losses for in both time and money for many business operators in having such matters brought before courts and tribunals.

VACC believes that the costly and time-consuming nature of such litigation can be greatly minimised by having a greater share of business disputes being dealt through the Victorian Small Business Commission.

VACC encourages the Victorian Government to provide increased funding to the Victorian Small Business Commission for dispute resolution to expedite and resolve the growing number of disputes involving small and large business.

Recommendation 8:

That the Victorian Government provide increased funding to the Victorian Small Business Commission for dispute resolution.

10. OTHER MATTERS

VACC also recommends that the Victorian Government consider the following matters affecting automotive businesses in regional Victoria:

Recommendation 9:

That the Victorian Government provide greater resources to improve technological connectivity in regional Victoria. This will enhance the use of new technology farm machinery for individuals and communities with a specific need to interconnect with other equipment and infrastructure.