Ai GROUP SUBMISSION

2018-19 Victorian Budget

NOVEMBER 2017

Ai GROUP

Contents

About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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1. Summary of objectives

The Victorian Government will deliver its next State Budget in an environment that demonstrates Victoria's current economic resilience. Victoria is clearly growing strongly in 2017, relative to other states and relative to its own history. People from other states and from all over the world are relocating to Victoria and especially Melbourne to work, study and expand their businesses. Major multinational businesses are choosing Melbourne as the launch pad for their Australian and Asia-Pacific operations.

Much of Melbourne's current growth is however, underpinned by the immediate needs of a rapidly expanding population and will not remain this strong indefinitely. Strong population growth is positive for the state in many ways, but it needs to be supported with a tighter focus on long-term planning and a commensurate pace of investment in infrastructure, if Victoria is to maintain its reputation for 'livability' and avoid problems such as worsening urban congestion or housing affordability. These concerns present long-term risks for the local outlook.

In 2017, Victoria has experienced the end of automotive assembly and confirmed the closure of the Hazelwood Power Station, both of which are significant events for the communities and businesses affected and have far-reaching ramifications for Victoria. Across all industries, there is growing concern about rising costs and disruption risks for electricity and gas supplies to businesses.

The current distribution of growth in Victoria is an issue of concern for Ai Group and its members. Most of the population (and jobs) growth is currently located in and around Melbourne, with new jobs at the centre and new suburbs at the perimeter. Regional development must become more prominent as a key element in long-term planning and development, to assist in meeting our collective social inclusion objectives and to address the worsening urban-rural divide.

Ai Group urges the Victorian Government to build upon the progress it has already made on:

- Reforming the training sector including in the VET and TAFE systems, the Skills First Program, the establishment of a Skills Commissioner and the Workforce Training Innovation Fund;
- Embedding long-term infrastructure planning procedures such as those at Infrastructure Victoria to assist in smooth flow of work through the infrastructure pipeline;
- Strengthening energy efficiency policy with careful treatment of large energy users;
- Ordering new rail and tram rolling stock, with continued local content requirements under the Victorian Industry Participation Policy (VIPP);
- Progressing with selected regional innovation programs;
- Reducing the payroll tax burden; and
- Promoting and integrating voluntary social inclusion objectives in business and industry policy.

Ai Group remains concerned about the considerable number of State Government measures imposing additional costs on business. These may appear small individually but collectively represent significant imposts on business and the broader Victorian economy. These include:

- The Government's moratorium on onshore drilling for gas;
- The Government's renewable electricity target;
- Additional annual costs imposed on the water industry which have flow-on costs to business customers;
- The additional tax royalty imposed on mines operated by coal fired generators in the state;
- Creating an additional state-wide public holiday on 'Footy Friday', in addition to other new state public holiday announcements;
- The Government's seeming unwillingness to support national harmonisation of legislation; and
- while Ai Group supports the Melbourne Metro project, we note that it will increase transport costs and travel times to business and workers during the long construction phase.

The Government has also said it will make changes or is considering changes in the following areas that are likely to impose additional costs:

- Changes to the EPA and the Environment Protection Act which may impose new conditions;
- Potential levies on the business community to pay for social campaigns;
- Consideration of the introduction of 'portable long service leave' entitlements in some areas of business; and
- Consideration of imposing a new and more expensive registration system on the Labour Hire industry.

Businesses cannot afford this continual proliferation of costs, without some offsetting changes.

2. Recommendations

Ai Group notes that the Victorian Budget will enter 2018-19 in a good financial position. This gives the Victorian Government more leeway to address immediate concerns about business costs and/or to bring forward longer-term investments and proposals that will contribute to growth. With this context in mind, Ai Group' priorities for the 2018-19 Victorian Budget are:

- **reduce business costs** imposed through state business taxes including payroll and land tax;
- **reduce regulatory costs** for business including removing 'Footy Friday';
- continued focus on business transition measures for remaining **automotive sector suppliers**;
- a more urgent focus on business transition measures for **energy generators, their suppliers and their customers**, and especially those being affected by the closure of Hazelwood;
- a more urgent focus on building capacity by **investing in skills** and especially in rebuilding the VET system, apprenticeships and STEM skills;
- implement programs such as Industry 4.0 and 'a Factory of the Future' to assist Victorian businesses in moving closer to **full digitization**; and
- bringing forward rigorously assessed infrastructure projects that can relieve **urban transport congestion** and/or encourage greater **industrial development in regional locations**.

Now and in the longer term, Ai Group's recommends that the Victorian Government works towards the following objectives that are of an equally high priority, but may take longer to implement:

- meaningful **payroll tax relief for all employers**, with the goal of eventually phasing it out altogether as part of a comprehensive restructure of Australia's national tax arrangements;
- assisting the state's **energy transition** through:
  - development and support for the La Trobe Valley power industry and its suppliers;
  - arrangements to ensure energy affordability and reliability for industrial customers;
  - gas exploration (and possible extraction) using conventional onshore technologies; and
  - exploring 'waste to energy' technology options, whilst ensuring considerations are pragmatic;
- strengthening emphasis on **STEM skills**, training and education, at all levels of education;
- a stronger emphasis on assisting Victorian businesses to adopt and adapt **digital technologies**, building upon programs such as Industry 4.0 and Factory of the Future;

- investing in effective programs and strategies to prepare young people and others who are new to the labour market for the world of work, including for example, tailored mentoring and coaching for new entrants to the labour market;
- investing in **innovation** and removing regulatory impediments (and costs) to innovation;
- continuing to support **international trade** and export development;
- continuing to support the long-term development of **defence industries** and capabilities;
- **infrastructure** that better integrates Victoria's urban, regional and rural economies, including the electrification of regional train lines that run near or through suburban areas.

3. Victoria's economy and outlook

Victoria's economy looks positive in 2017 and is stronger than in most other states. Victoria's current drivers of growth reflect - and depend upon – unusually strong population growth. Jobs growth however, may already be slowing and unemployment rising as of Q3 2017.

A broader and more sustainable base for growth needs to be encouraged in Victoria in order to: keep up the momentum; insulate against external risks and shocks; and spread the benefits of growth more widely across the state and across all segments of the community.

Victoria's economic growth outpaced other states and the national average in 2016-17, when measured in simple 'domestic demand' terms (see charts 1 and 2). In Q2 2017 (latest ABS estimate available), Victoria's state final demand grew by 4.7% p.a., almost double the national rate of growth of 2.4% p.a. for national domestic final demand (which includes only domestic expenditure).

Victoria's state final demand has outpaced the national rate since 2014 (chart 2). This relatively stronger performance reflects the composition of growth in Victoria. Victoria has been less affected than other states (most notably WA) by the downswing in mining investment and commodity price cycles, and has benefited more directly from strong population growth (charts 3 and 4) and a consequently larger residential construction boom (chart 5).

Chart 1: State final demand, by state

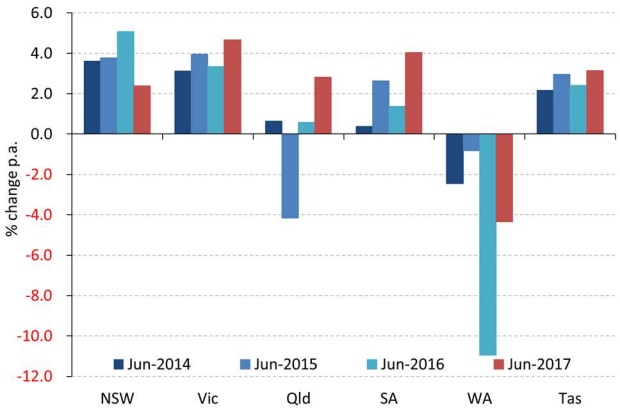
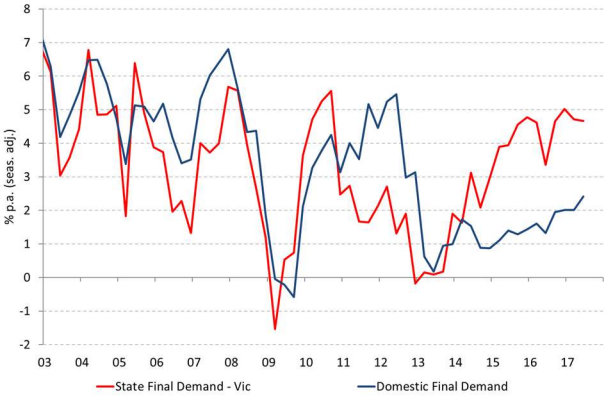


Chart 2: Vic state final demand and national domestic final demand



Source: ABS *National Accounts*, Jun 2017.

Population growth is the single most significant driver of growth in Victoria at present. Australia's estimated resident population (ERP) growth accelerated to 1.6% p.a. (390,000 more people nationally) in Q1 2017. In Victoria, ERP growth accelerated to 2.4% p.a. (150,000 more people) in Q1 2017 (chart 3). 46,500 people were added to Victoria's ERP in the three months to March 2017, which was a record high for the state. The bulk of this growth – 31,000 – came from net overseas migration. Natural increases (births less deaths) added a further 10,500 (which is about average per quarter over recent years) and 5,000 were added from net interstate migration (high but not exceptionally so). These ERP growth rates reflect – but also make important contributions to – growth in local economic activity, employment, incomes and housing markets.

This latest ERP growth rate of 2.4% p.a. for Victoria is significantly higher than the Victorian Government's expectation for 2.0% in 2016-17 and 1.9% in 2017-18 (table 2). It suggests the Government must revise its population estimates and forecasts. Infrastructure plans that are predicated upon Government population estimates (e.g. transport, education, healthcare, welfare and other community facilities) should also be revised in light of the actual growth that is occurring.

Victoria is also benefiting from strong growth in international student numbers (chart 4) because it is a globally recognised hub for higher education services. In the year to August 2017, 567,000 non-residents arrived in Australia for short-term visits (less than 12 months) for education purposes, up from 488,000 one year earlier. Additional international students arrived for stays of 12 months or longer and are included in state and national ERP (depending on the length and conditions of their visas). This accelerating growth in student arrivals is due to a range of factors including the lower Australian dollar and the relative attractiveness of Australia over other destinations for students.

Chart 3: State population growth (ERP)

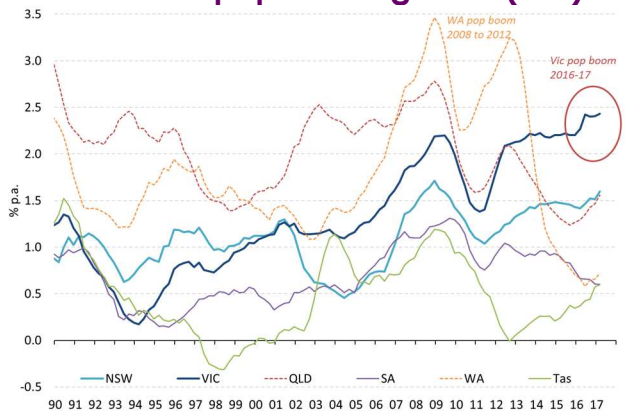
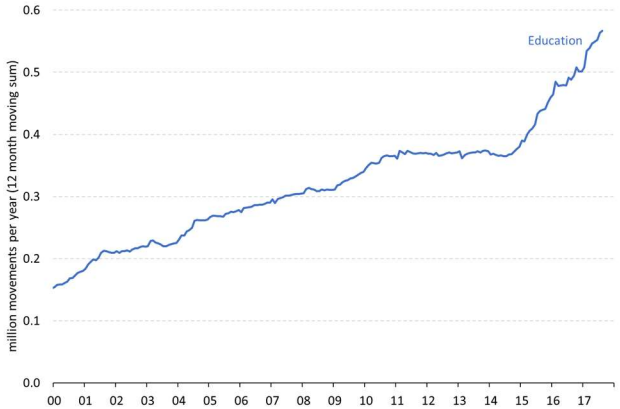


Chart 4: short-term education arrivals*



* Arrivals into Australia by non-residents for education purposes, for stays of less than 12 months.
Sources: ABS *Population Australia*, Mar 2017; ABS, *Arrivals and Departures,* Aug 2017.

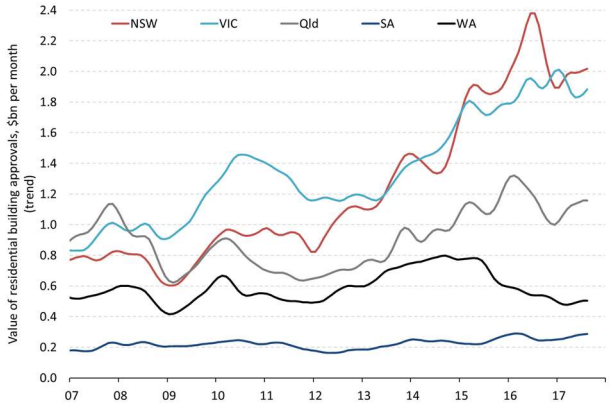
These strong population growth rates have supported record high numbers of residential – and more recently non-residential – building approvals and projects under construction. Demand for new dwellings and other buildings is also being supported by direct foreign investment in property in Victoria. Foreign property investment is estimated to be extremely high at present but could already be declining. ANZ and the Property Council of Australia estimate that 21% of new residential property sales went to foreign investors in Dec Qtr 2017 (down from 26% one year earlier and 31% in Sep 2016), as did 19% of tourism property sales (down from 20% one year earlier), 17% of office property sales, 14% of retail property sales and 12% of industrial property sales.[1]

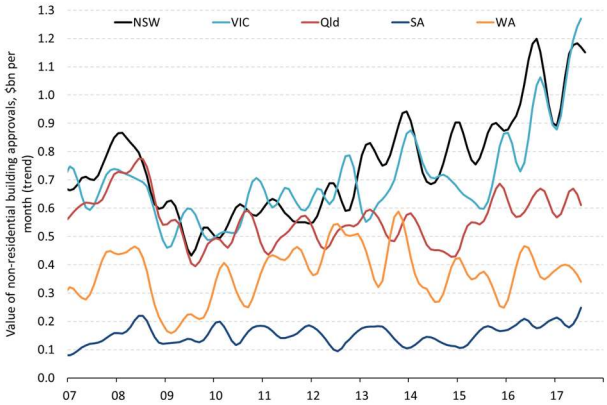
The strength of these combined sources of demand has been starkly evident in the building approvals data (charts 5 and 6), in construction jobs growth (chart 8) and in the rapid changes to Melbourne's skyline and suburbs. Approvals data suggest the peak in residential building approvals occurred in mid-2017 (chart 5), with a peak in construction activity likely to occur sometime in 2018. Non-residential approvals are still growing and now surpass all other states, by value (chart 6).

[1] ANZ Research, *ANZ-Property Council Survey*, Oct 2017.

These building approvals are in addition to the large pipeline of Government-funded infrastructure and engineering works that are already under way. They point to another strong year for the Victorian construction industry – and its considerable local supply chain – in 2018.

Chart 5: Residential building approvals Chart 6: Non-residential building approvals





Jobs growth is becoming a point of vulnerability in the Victorian economy. Although economic activity, population and house building were strong through 2016-17, employment growth slowed in Q3 and unemployment and part-time work rates are now higher than in other states (table 1). In trend terms, Victoria added 100,000 jobs over the year to August 2017, with the rate of monthly growth peaking in March and April (see table 1 and chart 7). Fewer new jobs were added in Victoria than one year earlier (110,000 over the year to Aug 2016). Jobs growth during this period was concentrated in retail trade and healthcare (in which 49% and 44% of jobs are part-time), construction and personal services. Manufacturing recovered another 3,600 jobs in Victoria in the year to August 2017, after adding 14,800 in the year to August 2016 (see chart 8).

Table 1: Employment, unemployment and participation rates by state, Sep 2017

	Employment growth			Part time workers	Unemploy-ment rate	Underemploy-ment rate	Participation rate
trend	'000 m/m	'000 y/y	% p.a.	%	%	% (orig.)	%
NSW	7.6	79.1	2.1	29.9	4.8	7.7	63.8
VIC	**5.6**	**96.5**	**3.1**	**32.9**	**6.0**	**8.6**	**66.2**
Qld	7.5	95.9	4.1	31.9	5.9	9.1	65.5
SA	1.5	15.1	1.9	36.1	5.8	9.9	62.1
WA	2.0	39.1	2.9	31.4	5.6	10.1	68.1
Tas	0.3	9.3	3.9	38.4	5.9	10.9	61.2
NT	-0.8	-3.2	-2.4	21.0	4.1	4.6	73.2
ACT	1.0	4.3	2.0	26.9	4.4	6.3	71.3
Aust	**23.8**	**335.5**	**2.8**	**31.6**	**5.5**	**8.7**	**65.2**

Source: ABS, *Labour force Australia*, Sep 2017

Of concern to the jobs outlook, monthly jobs growth may have already peaked earlier in 2017 (see chart 7). Manufacturing is unlikely to grow its total workforce again this year, as it moves past the final stages of auto assembly in Victoria. In its latest employment projections, the Department of Employment estimates that manufacturing employment in Victoria will fall from around 285,000 as

of May 2017 to 270,000 by May 2022, largely as a result of job losses from the auto sector offset by small rises in other manufacturing sectors such as food, building materials and other consumables[2].

Chart 7: State employment growth

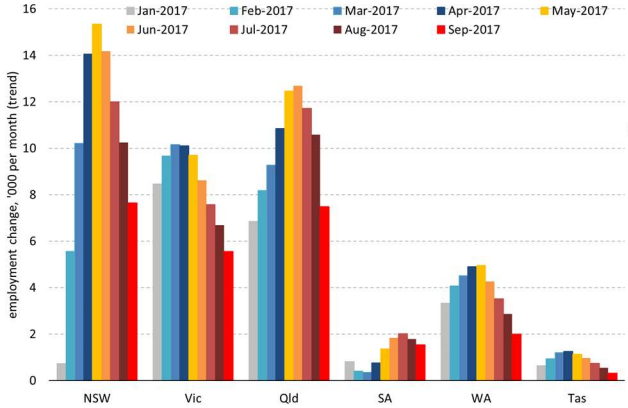
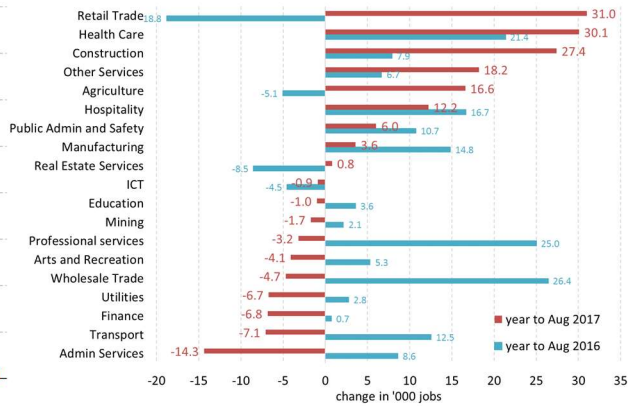


Chart 8: Vic employment growth by industry



Source: ABS, *Labour force Australia*, Sep 2017

When trade and other variables are factored into state economic performance, CommSec ranks Victoria second to NSW in Q3 of 2017, due to NSW's superior performance in retail trade sales; business investment spending; and the unemployment rate[3].

Looking ahead, Deloitte Access Economics notes that the current spike in population growth is likely to push state growth higher than the Victorian Government has forecast, even though these current population and house construction growth rates are probably 'near their peaks' (table 2). The lower Australian dollar is also providing strong support for Victoria's manufacturing exporters, farmers, tourism and education providers. Deloitte identifies key risks for Victoria including: unforeseen consequences from the closure of Hazelwood power station and rising energy prices; the end of automotive assembly; a sharper or faster drop in apartment construction than had been expected (e.g. if international investment dries up); and an unexpected or outsized rise in the dollar.

Similarly, NAB says:

> *"We expect Victoria to be the fastest growing state in 2017-18, with GSP growth increasing from an estimated 2.9% in 2016-17 to 3.3% in 2017-18 (driven by stronger labour market, business investment and government investment). GSP growth will then normalise to 2.7% in 2018-19. The unemployment rate is forecast to decline to 5.8% in 2017-18 and then 5.4% in 2018-19. Jobs growth overall has been strong in Victoria, despite some setbacks and regional differences. However, underemployment remains an issue, perhaps explaining the slow wages growth."*

Over the next two to three years, Victoria's population growth will definitely slow from the current (unusually strong) rate of 2.4% p.a. to something under 2.0% p.a. Other drivers of growth therefore

[2] Department of Employment, *Employment projections for the five years to May 2022, Regional employment by ANZSIC Industry*, Oct 2017.
[3] CommSec *State of the States*, Oct 2017.

need to be fostered and supported to sustain momentum in activity and employment, and to spread the benefits of growth more widely.

In 2018 and 2019, risks to Victoria's economic, industrial and employment growth will include:

- electricity costs and reliability of supply;
- gas costs and reliability of supply;
- urban congestion and related rises in transport costs and times (passenger & freight);
- the distribution of growth across Victorian regions, sectors and communities;
- Australian dollar volatility and/or foreign investor volatility;
- inadequate skills and especially STEM skills to support innovation and competitiveness;
- access new technologies and regulatory barriers to new technologies; and
- competitive business costs and a competitive regulatory environment.

Table 2: Government and private sector forecasts for the Victorian economy

% change p.a.	*2015-16 actual*	*2016-17 actual*	*2016-17 forecast*	*2017-18 forecast*	*2018-19 forecast*	*2019-20 projection*	*2020-21 projection*
Vic Treasury (May 2017)							
Real GSP, % p.a.	2.5	na	3.0	2.75	2.75	2.75	2.75
Employment, % p.a.	2.1	3.3	3.25	2.0	1.5	1.5	1.5
Unemployment rate, %	6.4	5.9	5.75	5.5	5.5	5.5	5.5
CPI, %	1.4	1.9	2.0	2.0	2.25	2.5	2.5
WPI, %	2.7	1.9	2.0	2.0	2.25	3.0	3.25
Population, % p.a.	1.7	~2.4	2.0	1.9	1.8	1.8	1.8
Deloitte Access Economics (June 2017)							
Real GSP, % p.a.	2.5	na	2.6	3.1	3.1	2.9	3.0
Employment, % p.a.	2.1	3.3	3.7	1.9	1.5	1.2	1.3
Unemployment rate, %	6.4	5.9	5.9	5.9	5.9	5.8	5.6
CPI, %	1.4	1.9	2.0	2.3	2.0	2.2	2.4
WPI, %	2.7	1.9	2.0	2.5	3.0	3.1	3.3
Population, % p.a.	1.7	2.4	2.3	2.1	2.0	1.9	1.8
Industrial production, % p.a.	0.5	1.8	1.8	2.6	0.8	1.1	0.9
NAB Economics (Oct 2017)							
Real GSP, % p.a.	3.3	na	2.9	3.3	2.7		
Unemployment rate, %	6.4	5.9	5.9	5.8	5.4		

Sources: Department of Treasury and Finance, *Victorian Budget 2017-18*, May 2017; ABS; Deloitte Access Economics, *Business Outlook*, June 2017; NAB Economics, *States Economics Handbook: Victoria,* Oct 2017.

4. Reducing the cost of doing business in Victoria

Costs are relatively high across a number of key inputs for business in Victoria including:

- Payroll taxes
- Utilities and waste levies
- Regulatory costs including public holidays
- Stamp duties, land development and construction planning costs.

Victoria's current state payroll tax rates and other state-based taxes and charges are compared to other states in Appendix 1.

Some measures were introduced in the 2015-16 Victorian Budget that provide some welcome relief on payroll tax and construction planning regulations. The Victorian Government needs to continue to actively reduce these regulatory costs, by addressing the taxes, levies and regulations that impose unnecessary costs on business and employment in Victoria.

4.1 Remove additional 'footy Friday' public holiday in Victoria

Ai Group continues to urge the Victorian Government to review the additional annual public holidays introduced in 2015 that impose additional costs on Victorian business and especially the additional 'Footy Friday' public holiday declared across the state. We urge the Victorian Government to look again at the intent of the Productivity Commission's recommendation that:

> *"The Australian Government should amend the National Employment Standards so that newly designated state and territory public holidays are not subject to public holiday penalty rates or a paid day of leave*." Review of the Workplace Relations Framework, Nov 2015, RECOMMENDATION 16.2, p. 55.

We also note the key finding of PwC in its Regulatory Impact Statement prepared for the Victorian Government in 2015, that:

> *The proposed public holidays* [Footy Friday and Easter Sunday] *would provide an estimated additional 1.5 million days off work across Victoria annually. … The lost production (or economic cost) from the new public holidays is estimated to be between $717 million and $898 million annually. The new public holidays would also result in increased wage payments of between $252 million and $286 million annually to those people who work on the public holidays. ... Overall, the estimated costs of the new public holidays outweigh the quantified benefits.* (p. ii)

In 2016, Victorian businesses paid a heavy penalty for Footy Friday according to surveys of businesses conducted by Ai Group in 2015 and 2016. These surveys confirm that significant numbers of large and small, metropolitan and regional businesses were severely affected.

In 2015, 85% of companies closed for the day with 71% incurring additional labour costs; the average loss in revenue per business was $57,500 and ranged from $1,000 to well over $500,000.

In 2016, 61% of surveyed businesses told us they were planning to close for the day and on average they anticipate losing around $16,000 in income for the day. These numbers were a touch lower than in 2015, because businesses had more time to plan ahead for this extra day off in 2016.

Ai Group's research indicates that the cost burden of this additional public holiday was felt especially keenly by regional businesses, because they all bore the full cost (in contrast to other similar days such as Melbourne Cup day, Footy Friday was declared a public holiday statewide) but gained none of the tourism-related benefits that might have accompanied it, since the football parade that explained this holiday and was intended to attract tourists was held in the Melbourne CBD. For the vast majority of Victorian businesses, this public holiday was an unnecessary obstacle in an already trying environment. The cost to Victorians far outweighs any perceived benefits.

4.2 No increase in workers' compensation premiums

The Victorian Government did not change the level of WorkSafe premiums in 2017-18. The average premium rate for Victoria remains at 1.272%, a touch higher than in Queensland (see chart 9). Individual employers may find their premium changing due to movements in industry rates or industry claims cost rates, or due to changes in claims performance. The premiums payable by small employers are less affected by their own claims costs than larger employers. In Victoria and some (but not all) other jurisdictions a simplified premium formula is applied to small employers, with the formula and rates varying across states.

Chart 9: Average workers' compensation premium rates, from 1 July 2017

We note that the 'break-even' premium is currently 1.262%, which is edging very close to the current average premium of 1.272%. A vital issue is to ensure Common Law claims do not spiral. It is incumbent on the Government and WorkSafe to develop an equitable system which supports workers and employers, but without the huge cost structure we now must contemplate. The recent review of the Common Law system for WorkSafe may not alleviate the extraordinarily high legal costs in this area. Government must keep a close eye on these costs and, if necessary, act to keep these costs down. Common Law claims, and costs have grown much more than had been contemplated, which could necessitate a major revamp of the system.

Employers continue to seek ongoing premium reductions, to maintain their competitive position in relation to other jurisdictions. Employers do not wish to see the current trend toward common law costs growth pushing up their average premiums in future years.

4.3 Reduce payroll tax burden

In its 2016-17 budget (May 2016), the Victorian Government announced an increase in the state payroll tax threshold from $550,000 to $650,000 in progressive increments of $25,000 over the next four years. The State Government estimated this will eventually benefit around 36,000 businesses which will no longer pay this tax, saving them around $312 million over four years. It also announced new payroll tax exemptions from 1 July 2016 for wages paid to displaced apprentices.

As a long-term policy goal, Ai Group continues to support the recommendation of the Henry tax review (*Australia's Future Tax System,* 2010), that included the abolition of payroll tax, within the context of a wider program of national taxation reform.

Payroll tax also presents a high administrative burden on business. While it remains in place, Victoria must work with other states to harmonise collection and reporting arrangements and to reduce the regulatory burden associated with payroll tax.

5. Investing in skills, education and training in Victoria

5.1 Victorian Government VET system

Victoria continues with a contestable training market, but with a more managed and focused approach. Ai Group accepts the new approach and associated initiatives, including Skills First for subsidised training which commenced in 2017. It is essential that new initiatives are responsive to industry needs and that quality comes first for all providers.

In Ai Group's view this includes supporting skill sets within the funded courses under the new scheme. Industry has expressed a need for shorter, sharper training in the right circumstances and delivered in the form of skill sets to help upskill workers, especially in the trades. Ai Group recommends more support for skill sets for industry.

The Victorian Government reforms include a new $40m Workforce Training Innovation Fund in emerging and priority industries. This is welcomed by Ai Group as it has the potential to strengthen industry and training partnerships and provide a boost to innovation in the state's economy. This Fund has the potential to transform both industry and training provision in a highly innovative way.

Ai Group believes the government needs to prioritise the implementation of this Innovation Fund. Activities under this Fund could focus on industry- education partnerships and inter-company initiatives that assist in the resourcing of training centres, resources pooling and supply chain based consortia. It is noted that little has been announced from this Fund during 2017.

5.2 Victorian apprenticeships

NCVER data consistently show that the apprenticeship system is underperforming. Numbers undertaking apprenticeships have declined over the last year, and indeed for the last decade. Completion rates are unacceptably low. The ABS data show trade and technician occupations are experiencing skill shortages. There is a need for employer incentives to encourage first-time employers of apprenticeships. It is to be hoped that the outcomes and findings of the Victorian Apprenticeship and Traineeship Taskforce address these serious issues.

Ai Group encourages the Victorian Government to consider new models through the Workforce Training Innovation Fund or the new National Partnership Agreement, that deliver higher level apprenticeships which will give real purpose again to the apprenticeship system, and meet the higher order skill needs in companies. These higher-level apprenticeships can be Diploma/Advanced Diploma qualifications as well as qualifications provided in the higher education sector.

Group training should also be further supported as a means of allowing more SMEs to participate in apprenticeship arrangements as well as allowing greater support to be given to starting apprentices.

Ai Group has highlighted the need to clearly define and support pathways to apprenticeships and traineeships. In particular, current pre-apprenticeship arrangements are ad hoc at best. These need to be more clearly defined, systemically supported and directly lead to credit within apprenticeship arrangements.

School-based apprenticeships are in decline in Victoria decreasing by 7.7 per cent between 2015 - 16. The numbers have never been high and at the last NCVER report were around 3,300. If this pathway is not specifically addressed by the Taskforce it is timely to review the arrangements to determine how more schools and employers can be encouraged to participate.

5.3 STEM skills in Victoria's education system

STEM skills in Australia remain poor in comparison with other countries. STEM needs to be effectively integrated into school programs. STEM skills also need to be better developed in the VET sector and existing workplaces.

Representing a focus on STEM, Ai Group is encouraged by the Victorian Government's Tech Schools initiative, including the 10 state-of-the-art facilities and the planning of a range of locally relevant programs connected with those regions.

Arrangements for industry involvement in this initiative are not fully co-ordinated. They will be the responsibility of the directors in each site. It would be useful to consider the establishment of industry liaison officers for each site to assist directors in this key task and to provide a clear point of contact for industry wishing to be involved. A similar initiative has been introduced to the STEM HUBS in Queensland with success.

In addition to the Tech Schools initiative the government should consider the recommendations contained within the recent Ai Group research report *Strengthening School – Industry STEM Skills Partnerships*. These include highlighting the need for systematic support of teacher professional development, the promotion of various STEM partnership models and assistance to schools to form partnerships with industry.

5.4 Foundation Skills in the Workforce

Victoria still does not provide the necessary support for the development of foundation skills for existing workers. A recent Ai Group pilot program using units from the Foundation Skills Training Package produced positive results for the existing workforce. The Ai Group urges the Victorian government to consider the adoption of a similar program to lift the literacy and numeracy skills of the current workforce. The recent OECD report, *Building Skills for All in Australia*, highlighted our poor performance, particularly in numeracy, and recommended VET providers to address this.

5.5 Digital Skills

Various reports have highlighted workplace transformation and the disruption caused by digital technologies. The workforce increasingly must be digital-capable. As a consequence, there needs to an expansion of digital literacy across all education sectors and flowing into the workforce. In the school sector, for example, the Ai Group report on STEM education highlighted the lack of teacher confidence in delivering digital skills and ACARA has reported a low level of digital competence in school students.

The Ai Group conducted a national CEO survey towards the end of 2015, which asked businesses about both the general business outlook, and their use of, investment in, and plans for digital technologies. The survey found that businesses are prepared to digitally upskill their workforce through training or recruitment. A minority will be outsourcing digital functions. Alarmingly, 17 per cent of businesses plan to do nothing to improve technology skills. Employee skills, costs, perceived lack of relevance and slow internet were major reasons that inhibited businesses from investing in digital technologies.

An NCVER report found that the VET system contains a significant amount of digital training content, although much of this is elective rather than part of the core. The training is also geared towards the development of lower levels of skills. This is counter to the growing evidence of the increasing need for higher-order skills in data analytics, cyber security, social media and mobile-related digital skills.

There is a requirement for greater investment in digital skills across the education and training sectors to meet the increasing digital needs of the workforce.

5.6 Support for company skills and training capabilities

The rapidly changing business landscape is putting pressure on companies to re-skill and up-skill existing workers to take advantage of growth opportunities, adapt to the digital economy and create new jobs. A successful model for supporting companies to develop and implement training plans in line with new strategies involves the assistance of skills advisers, such as those that operated under the Australian Government's Industry Skills Fund. Under this Fund subsidies were also provided for existing workers to undertake training.

The Ai Group encourages the introduction of a similar scheme, in particular for SMEs, that delivers expert advice and information on workforce development planning and skills opportunities, including addressing digital skill needs; language, literacy and numeracy issues, leadership and management challenges and other unmet demand for training to assist company growth.

6. Innovation, industry and employment policy

Ai Group acknowledges and appreciates the industry support measures introduced by the Victorian Government in recent years including:

- increased funding for the Premier's Jobs and Investment Fund and the Future Industries Fund;
- implementation and promotion of the VIPP;
- increased funding for auto worker retraining and for LaTrobe Valley economic development;
- funding allocations for regional industry development hubs and facilities.

Ai Group notes however, that the current industry support funds and measures are generally targeted at just six designated 'growth sectors' (see Table 3). These six sectors are relatively broad, but Ai Group would prefer an approach that did not preclude any industrial sectors or business activities, simply because they did not fit neatly into an existing list of prescribed sectors.

New and emerging digital, 'enabling' and other technologies are being adopted more widely and across a more diverse spectrum of industries, globally and locally. In this environment, the limitations - and potentially adverse consequences - of 'picking winners' in local industry policy is becoming increasingly apparent.

Table 3: Victorian Government "priority growth sectors", Future Industries Fund

Future Industries Fund, priority growth sectors
1 Medical technologies and pharmaceuticals
2 Food and fibre
3 Professional services
4 Transport, defence and construction technologies
5 International education
6 New energy technologies

With a firm eye on the digital world and its potentially disruptive implications for the future of industry across Victoria, we urge the Victorian Government to review its regulatory arrangements across the board. The Government should aim to reduce or remove regulatory barriers to innovation and new technologies across all sectors, including (but not limited to) energy, transport, engineering, food development, robotics, digital technologies and telecommunications.

This is becoming increasingly urgent with the advent of Technology 4.0 and the plethora of digital technologies, applications and systems that are becoming available. This includes for example:

- regulatory arrangements for the 'sharing' and 'gig' economies;
- regulatory arrangements for digital technologies, IP and applications;
- regulatory arrangements for robotics and artificial intelligence in the workplace;
- regulatory arrangements for driverless cars and other driverless transport for freight and/or passengers on Victoria's public roads;
- development of use of 'Big Data' to create an innovative economy.

With regard to the regulatory arrangements for driverless vehicles, we urge the Victorian Government to continue to support the development of a national phased reform program, as agreed by the Transport and Infrastructure Council in November 2016. This program aims to enable conditionally automated vehicles to operate safely and legally on our roads before 2020, and highly and fully automated vehicles from 2020. [4]

Barriers to digitisation include uncertainty, unfamiliarity and unease with the relevant technologies We need to take manufacturers and others to the stage where digitisation is a matter of course and they are ready to begin their 4.0 journey. Measures to assist a 'digital factory of the future' program, to help overcome these barriers. For example, the CEO of Siemens in Australia, Mr. Jeff Connolly, recently reported that 80% of all German companies would be digitally enabled within 5 years, while the French and Singaporean Governments are developing a 'digital factory of the future' with assistance from the Boston Consulting Group (BCG). Our Victorian companies need to have a similar aim. Victorian Government can foster this by actively encouraging and demonstrating the importance of digitisation and how it can be implemented, easily and perhaps seamlessly, within their businesses.

There is scope for Victorian policy to support a successful transition to digital industry. These efforts should be coordinated with existing private, State and Federal initiatives including the Industry 4.0 Taskforce, the Australian Advanced Manufacturing Council, the Advanced Manufacturing Industry Growth Centre, and the Innovative Manufacturing Cooperative Research Centre, all of which have resources and insights to share. The Department of Industry has also held discussions with BCG and others and we encourage consideration of their advice.

6.1 Automotive supply chain transition

Ai Group acknowledges the planning and assistance already undertaken by the Victorian, South Australian and Federal Governments in response to the recent closure of automotive assembly in Australia

Remaining industry transition measures need to consider the automotive businesses, sub-contractors and supply chains, as well as the direct employees who have left the automotive sector, if they are to be effective and equitable. This is particularly urgent in Broadmeadows and Dandenong, where local unemployment rates are extremely high.

Local suppliers that can offer continuing employment to their workers and that are already in the process of transitioning to other markets must be given priority attention and support, if they are to make a successful transition.

6.2 Strengthening the VIPP (local procurement)

Ai Group welcomed the implementation of the Victorian Industry Participation Plan (VIPP) and continues to look forward to it being rolled out across a wide range of Victorian Government contracts.

[4] NTC, November 2016, https://www.ntc.gov.au/current-projects/preparing-for-more-automated-road-and-rail-vehicles/

Ai Group believes public procurement has the potential to offer opportunities to local businesses but any decision to acquire locally should be subject to rigorous fiscal assessment that takes into account the benefits of local procurement but also ensures that local content provides value for money for the taxpayer. Ai Group believes that Governments should be flexible on definitions of local content. For example, local content could be the local assembly of inputs made overseas when that is the most sensible option that delivers value for money for the government. Local should also refer to businesses operating in Australia and not limited to a single state.

Government Ministers have ensured an active engagement in this area, which has ensured there have not been unnecessary changes made to the policy, which would have given little value. The policy must show value with little 'red tape'.

We made a submission to the Victorian Industry Participation Plan in late 2015. In it we raised two main points – firstly that government procurement decisions can be used strategically to encourage innovation, and that broader impediments in government tendering should be removed to enable local businesses the chance to compete fairly for government contracts.

Ensuring that government procurement opportunities have significant flexibility and are not overly specific in their requirements have the potential to provide businesses, large and small, with the opportunity to offer innovative products or processes. That is, procurement can provide a 'demand-led' model of research and development, and enables the government, that is the customer, with direct input at the development stage of a new product or service rather than waiting until it reaches the market. This brings benefits to both businesses and governments.

The Government is also keen to adopt social procurement as a means of improving social issues. Ai Group and industry supports the objectives behind this idea but is very wary of additional red tape imposts that would be associated with compulsion. Industry should be encouraged to be involved rather than facing new mandated positions. We believe government will be pleasantly surprised by industry's recognition and desire to be engaged and assist.

7. Energy, environment and waste policy

Energy costs are a top-tier concern for ever more Victorian businesses as they are hit by the recent rise in wholesale electricity and gas prices. Many are also concerned by the forecast potential for reliability problems over the next two summers. This situation presents a serious economic threat, particularly to a manufacturing sector that is otherwise well placed for growth.

Some of what can be done about this situation falls largely outside Budget policy.

New investment in energy resources is essential to deliver improvements on price, reliability and emissions, but deep national policy uncertainty is holding back investment beyond the current national Renewable Energy Target. Victoria can play its part in delivering confidence for new investment by helping to bed down the agreed Finkel Review reforms, and pursuing cross-jurisdiction political consensus around emissions reduction policy for the electricity sector and measures to ensure reliability in a system growing more dependent on variable renewables. The Commonwealth's proposed National Energy Guarantee is a potentially workable model and more work is needed to flesh it out.

Gas prices are both a direct drag on business costs – particularly for manufacturing - and a prime driver of high electricity prices. While the commencement of Queensland gas exports was expected to mean local gas prices rose to export price parity, supply problems and demand growth have led to scarcity prices well above international levels. The Commonwealth's agreement with the gas exports should provide some temporary relief over the next two years, but a range of new supply and demand side options are needed to keep the market in balance and prices at export parity beyond this.

Gas imports are likely to be a useful medium-term source of supply security and competitive tension for the Eastern Australian market. Victoria should facilitate the import jetty currently under consideration by AGL, by ensuring timely and fair consideration in any relevant approvals processes.

Victoria's onshore gas resources could also eventually be a part of the solution. Ai Group would prefer to lift the current onshore gas moratorium entirely, including that on unconventional gas production, and replace it with firm science-based regulation to manage identified risks. However, we recognise strong community sentiment around unconventional gas. The Government should at a minimum continue the existing Victorian Gas Program that is investigating Victoria's prospective onshore conventional gas resources, and take a timely decision to enable responsible development if the results are positive.

Even with sensible policy, electricity and gas prices are unlikely to return to their historical low levels. Energy efficiency and productivity will be important to maintain industry competitiveness in a higher-price environment. The ongoing expansion of activities under the Victorian Energy Upgrades scheme, also known as the Victorian Energy Efficiency Target, is important to increase take-up of business improvement opportunities. Adequate resources for methodology development, maintaining industry consultation, and marketing the scheme will be needed to build participation.

Some steps the Government can take fall squarely within Budget policy.

We strongly support the Government's decision to bear any costs associated with the Victorian Renewable Energy Target through the Budget, rather than passing them through to energy users. While the initial phase of the scheme may be low- or zero-cost, future costs depend on the evolution of national emissions policy, as well as trends in generation and storage technology costs. Ai Group retains a strong preference for coordinated and national energy and climate policy; Victoria should work with the other States and the Commonwealth to achieve reliability and emissions goals at least cost.

Existing Government support for industrial energy efficiency is positive and these initiatives should be delivered and reviewed. Where efforts to lift energy efficiency capability, identify opportunities and implement energy saving projects are successful, these programs should be retained and expanded. There is also potential to align energy efficiency support with the State's efforts to support Industry 4.0 and the digitization of industry.

Victoria has adopted a 2050 goal of net zero emissions, as have most other States. While debate has mostly centered on the electricity sector, these goals imply substantial changes in industry and many other sectors in coming decades. To help inform future strategy and policy for the retention of a strong and diverse economy including a vibrant manufacturing sector, the Government should fund work with industry and other stakeholders to identify current and emerging technical and commercial options to eliminate industrial emissions while maintaining output. This should include investigation of logistical, infrastructure, regulatory, policy and commercial barriers to these options.

8. Infrastructure investment in Victoria

Ai Group commends the establishment of Infrastructure Victoria to assist with long-term planning. Infrastructure Victoria has released a "30 year infrastructure strategy" for Victoria that will be of great assistance in this task, particularly with regard to transport and housing projects. It is critical that investment proposals are rigorously and transparently assessed and prioritised. It is also critical that these long-term plans by updated frequently to reflect the latest population growth estimates and demographic projections. Periods of unusually rapid population growth or change (such as is occurring now) can quickly render obsolete such careful and valuable forward planning. This planning and review process is fundamental both to ensure that resources and efforts are directed to projects that generate greatest benefits for Victoria and Victorians and to assist in building the cross-party support that is required to provide greater certainty to investors.

The Federal Government's 'Smart Cities Plan' is also useful in identifying strategies to enable "smart investment, smart policy and smart technology' across metropolitan and regional centres. This plan has been developed nationally in response to the major urban challenges of "congestion, poor access to jobs and services, reduced housing affordability and increasing pollution".[5]

The Victorian Government already recognises the importance of ensuring that capacity and capability is developed in domestic supply chains so that full opportunity is taken up by domestic businesses that can plan for and compete for procurement work in projects. Emphasis on local capacity, capability, skills and supply chains must be maintained and strengthened. This should include an emphasis on using public infrastructure contracts to build competitive capacity and capabilities in regional areas wherever possible, such that our social inclusion objectives can be more easily addressed.

Related to infrastructure planning, inner urban growth and congestion needs to be addressed with sensible long-term transport infrastructure planning plus stronger regional development plans that can encourage business and jobs growth to spread out from Melbourne's city centre. This is becoming increasingly urgent as Victoria's – and especially Melbourne's – population surges but our jobs growth remains stubbornly city-centric. Regional infrastructure, telecommunications, education and training, and business innovation systems need to actively target and encourage growth in business activity into the regions.

[5] Department of Prime Minister and Cabinet, April 2016, *Smart Cities Plan*, https://cities.dpmc.gov.au/smart-cities-plan

9. Social inclusion and regional development

Ai Group supports the increased attention being given to social inclusion and especially regional inclusion within the context of industry, employment and infrastructure policy in Victoria. As noted above, a stronger focus on fair and equitable outcomes is especially pertinent to Government responses to disruptive industry changes, such as the exit of the automotive industry and the transition to renewable energy generation, which are disproportionately affecting outer suburban and regional communities at present.

As noted by Ai Group CEO Innes Willox in an interview about the US Federal Election result in 2016:

> *Perhaps the most important take-outs relate to broader questions about the management of economic transition and the importance of building a more inclusive approach to economic and policy change. Critically, the US election result shows that you cannot airily wave goodbye to big parts of industry without expecting political repercussions.* (10 Nov 2016)

Areas of social dislocation are obvious and too frequent in a community that is prosperous. Many of our social concerns anecdotally appear to emanate in the north and south-east of Melbourne. We need a comprehensive campaign to include people who obviously feel they are not a part of civil society. The costs of not doing so are significant.

As simplistic as it seems, Ai Group believes jobs mean people can achieve; can dream and provide for their future. Job creation is so much better than incarceration or social welfare payments. This may require Government support for companies willing to engage people with more challenging disadvantages and/or in regions with higher levels of socio-economic disadvantage. A continued commitment by Government to partner with industry in creating long-term job opportunities would provide better economic and social outcomes than short-term social funding models. A long-term project – which is bi-partisan – needs to be introduced which supports a new generation of people.

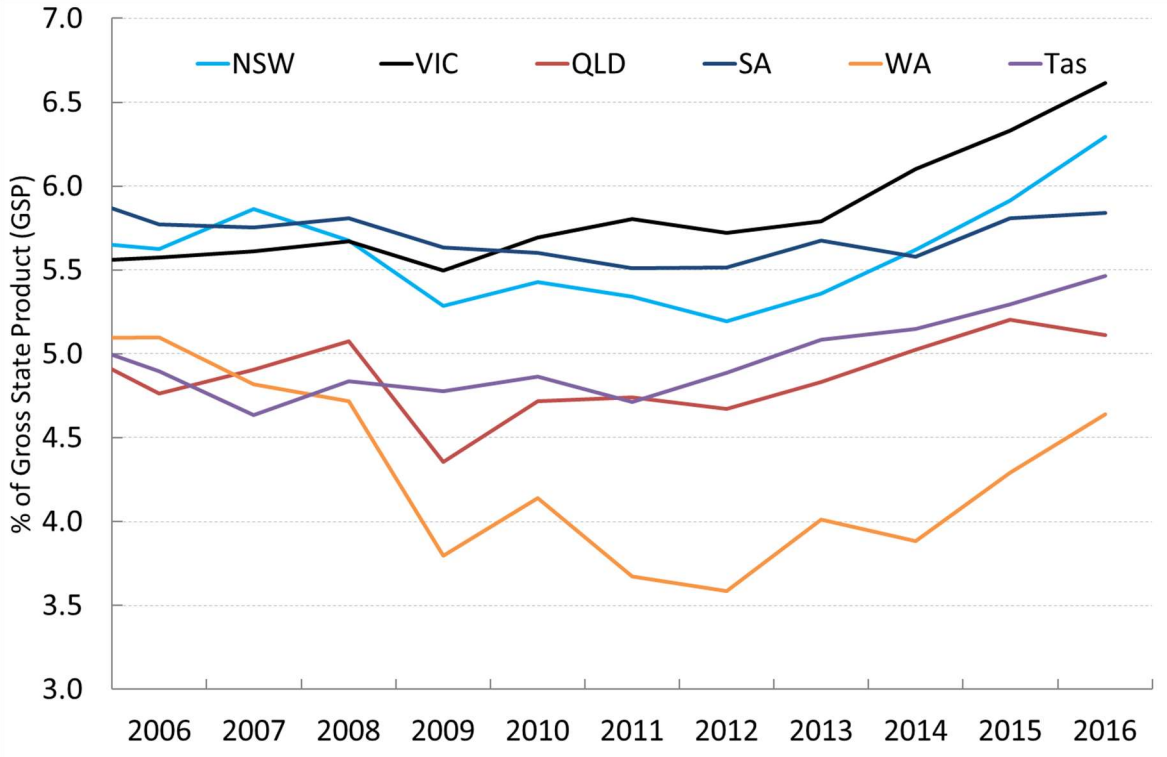
The consequences of failing to engage new arrivals in the community and in meaningful work is significant. Already there are significant numbers of youth and others in and around Melbourne who are not being adequately supported. We need social cohesion and the Government has a mandate to ensure that occurs.

Appendix: State taxes on business: how do they compare? (May 2017)

Key points

- State, territory and local governments are responsible for providing a large share of Government services (e.g. health, education, police and justice). They fund these services through a mix of revenue raised by the Commonwealth (e.g. national company tax, income tax and the GST) and through direct state taxes, fees, levies, charges and royalty fees.
- Around 32% of state, territory and local government revenue is collected directly through their own taxes, amounting to $95.5 billion in 2015-16.
- The primary sources of state tax revenue are payroll tax and stamp duty on property sales. Others include land tax, gambling and insurance taxes, motor vehicle taxes and council rates.
- In 2015-16, Victoria had the highest state and local tax burden, at 6.6% of Gross State Product (GSP), followed by NSW (6.3%), South Australia (5.8%), Tasmania (5.5%), Queensland (5.1%) and Western Australia (4.6%) (all taxes and charges except mining royalties). (see chart 1).
- Mining royalties paid by resources companies are an important source of additional revenue for the states, particularly in WA (15% of revenue in 2015-16), SA (13.1%) and Qld (6.6%).
- All states raise tax revenue from a broadly similar range of taxes, but each sets its own rates, thresholds and other criteria. This variation adds to the complexity and compliance costs associated with Australian taxes and charges, especially for businesses operating across multiple states. This increases business costs and reduces our international competitiveness.

Chart 1: State and local government taxes*, share of GSP, %



** All state and local government taxes, fees and levies excluding mining royalties*
Source: ABS Taxation Revenue Australia, 2015-16

Table 1: Summary of major state government taxes, fees and charges payable by business, 1 July 2016

	NSW	Vic	Qld	SA	WA	Tas
Payroll tax threshold, $	750,000	575,000	1,100,000	600,000	850,000	1,250,000
Payroll tax rate, %	5.45	4.85	4.75[(a)]	4.95[(b)]	5.50[(c)]	6.10
Stamp duty on commercial property, threshold, $	1,001,000	960,001	1,001,001	500,001	500,001	725,001
Stamp duty on commercial property, rate, %	1.25	1.40	1.50	1.00	1.90	1.75
Land tax, minimum threshold, $	482,000	250,000	600,000	332,001	300,000	25,000
Land tax minimum rate, %	1.60	0.20	1.00	0.50	0.25	0.55
Land tax, maximum threshold, $	2,947,000	3,000,000	5,000,000	1,108,000	11,000,000	350,000
Land tax maximum rate, %	2.00	2.25	1.75	3.70	2.67	1.50
Vehicle stamp duty, min. $ payable on $30,000 value	900	960	900	1,140	1,050	900
Vehicle stamp duty, min. $ payable on $60,000 value	2,100	1,920	1,800	2,340	3,900	2,400
Business vehicle licence, $ *(e.g. on a 2016 Toyota Camry)*	353.00	284.70	300.00	313.80	180.00	196.38
Business vehicle compulsory third party insurance, $ *(e.g. on a 2016 Toyota Camry)*	898.98	502.70	368.60	409.35	500.00	338.00
Business vehicle other fees, $ *(e.g. on a 2016 Toyota Camry)*	0	0	52.30	12.10	54.00	42.00
Workers' compensation, average premium rates, %	1.397	1.272	1.200	1.950	1.478	na
Waste levy, min. and max. $ per tonne, industrial waste	78.20 to 135.70	54.37 to 62.03	0	38.00 to 76.00	50-60	na
Emergency and fire levy, $ payable on $1mn commercial property value	2,887	1,863	variable	1,198.85	variable	1,290 (Hobart)

(a) Effective rate slides from 0% at $1.1m to 4.75% at $5.5m. Threshold reduces as employers' wages increase, so no exemption is provided for employer wages over $5.5 million.

(b) A small business payroll tax rebate applies to businesses with payrolls up to $1.2 million until 30 June 2020.

(c) Effective rate slides from 0% at $850,000 to 5.5% at $7.5m. Threshold reduces as employers' wages increase, so no exemption is provided for employer wages over $7.5 million.

Current sources of state and local government revenue

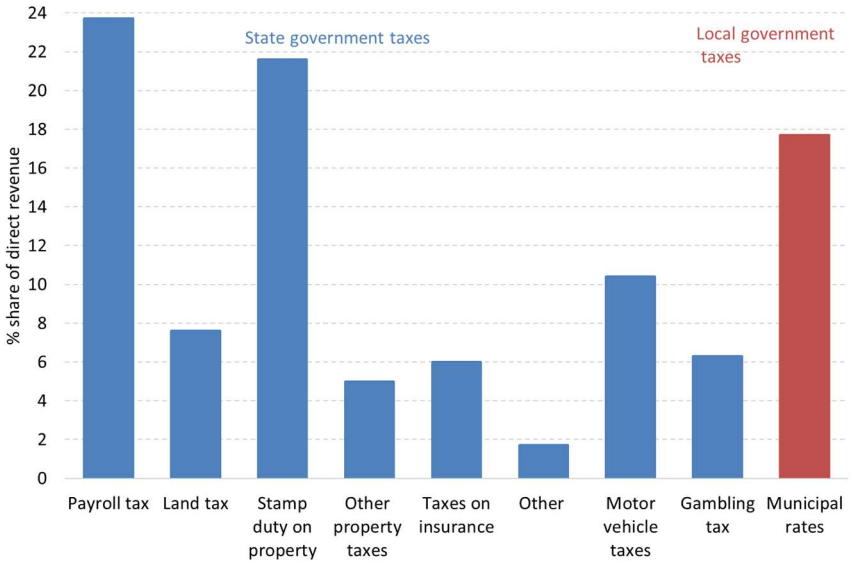
State, territory and local governments are responsible for a sizeable portion of the government revenue collected from business in the form of various taxes, fees levies and charges. State governments also rely on revenue distributions from the Commonwealth Government, derived from company tax, personal income tax and the GST (distributed according to formulae set out by the Commonwealth Grants Commission).

In aggregate, the state and local governments collect around 32% of their revenue from direct taxes and charges, amounting to $95.5 billion in 2015-16.[6] The largest sources of direct state revenue are payroll taxes ($22.7 billion and 23.7% of direct state government revenue) and stamp duties on property purchases ($20.6 billion and 21.6% of direct state government revenue).

Other major sources of direct state government revenue are:

- Taxes on gambling, insurance and other selected services ($11.9 billion and 14% of revenue);
- motor vehicle registrations, charges and taxes ($11.4 billion and 10.4% of revenue) and;
- Land and other property taxes ($10.1 billion and 8% of revenue).

Chart 2: Sources of state and local government direct revenue*, 2015-16



** Excludes mining royalties.*
Source: ABS Taxation Revenue Australia, 2015-16

Municipal or council rates ($16.9 billion in 2015-16 and 17.7% of state and local government direct revenue) are levied on all property and paid to local governments. The level of rates payable by each property owner varies considerably across municipalities and across property types.

State governments also collect royalty payments from mining companies for their natural resources. These payments are not included in these state taxes and charges calculations.

States raise revenue from a similar range of taxes and charges, but there are wide variations in the

[6] ABS *Government Finance Statistics, Australia*, 2015-16, cat. No. 5512.

rates, thresholds and other criteria. Relative state taxation competitiveness across states is an important issue for Australian industry, as it can have a major influence on a range of business decisions from employment and investment to location.

ABS data indicates a strong increase in direct taxes relative to Gross State Product (GSP) across most states over the past five years. In 2015-16, Victoria had the highest tax burden, at 6.6% of GSP. This was followed by NSW (6.3%), South Australia (5.8%) and Tasmania (5.5%). Queensland (5.1%) and Western Australia (4.6%) had lower tax burdens, but these calculations exclude mining royalties and so understate the total payments made directly by business to state governments in those states (see Chart 1).

Payroll tax

Payroll tax represents a major cost of doing business in Australia. Payroll tax is levied by employers in all states that have total payments for employee wages and salaries exceeding the designated tax-free thresholds. Wages and salaries are defined to include most forms of employee benefits, commissions, bonuses and fringe benefits. Each state is responsible for determining its own threshold, rates, income definitions and other criteria.

In 2015-16 a single flat payroll tax rate (expressed as a percentage of payroll) applied in all states, but the rates, thresholds and tapering vary significantly across states. Victoria has had a two-tier payroll tax rate since 1 July 2017, with a discounted rate introduced for regional businesses. Comment on the new payroll tax arrangement

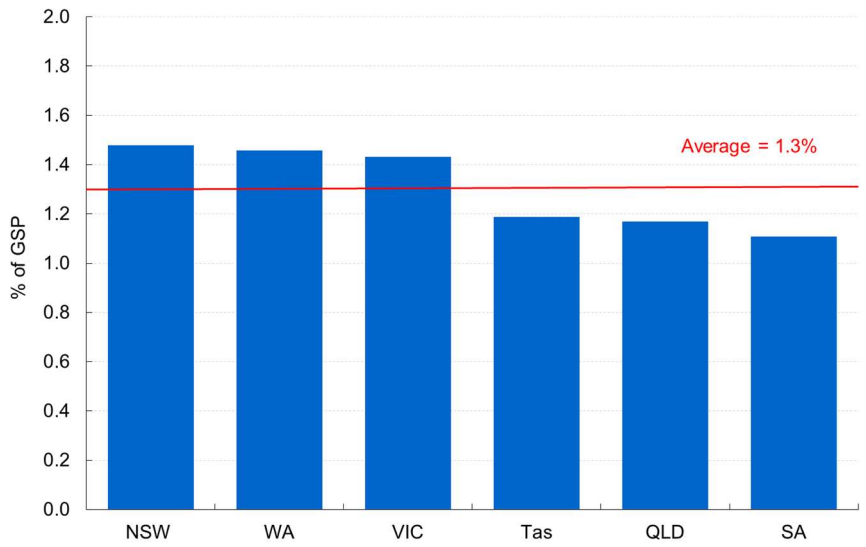
Table 3: Australian state payroll tax rates, 1 July 2016

state	threshold (annual payroll)	rate	notes
NSW	$750,000	5.45%	
Vic	$575,000	4.85%	From 1 July 2017: • payroll tax threshold will increase from $575,000 to $625,000, and to $650,000 from 1 July 2018. • payroll tax rate will reduce from 4.85% to 3.65% for businesses operating "mostly in regional Victoria" *
Qld	$1,100,000	4.75%	Effective rate slides from 0% at $1.1m to 4.75% at $5.5m. Tax-free threshold reduces as employers' wages bill increases, so no exemption is provided for employer wages over $5.5 million.
SA	$600,000	4.95%	
WA	$850,000	5.5%	$850,000 to $7.5million (annually): diminishing tax-free threshold over $7.5million: no threshold granted. Effective rate slides from 0% at $850,000 to 5.5% at $7.5m. Tax free threshold reduces as employers' wages increase, so no exemption is provided for employer wages over $7.5 million.
Tas	$1,250,000	6.1%	

**Definition of 'regional' will be the same as the State Revenue Office (SRO) applies for the first home owner's grant eligibility. See* http://www.sro.vic.gov.au/regional; *Businesses are considered regional if most of their employees and activity is conducted in regional areas, as defined by the SRO. Source: State Budgets 2016-17, Victoria State Budget 2017-18*

As a share of GSP, the states collected an average of 1.3% of GSP in the form of payroll tax in 2015-16. As a share of its GSP, NSW collected the most payroll tax in 2015-16 (1.5% of GSP), followed by Western Australia (1.5%) and Victoria (1.4%) (chart 3).

Chart 3: Payroll tax revenue as a share of GSP - 2015-16



Sources: ABS Taxation Revenue Australia, 2015-16; ABS Austalian National Accounts, State Accounts

Stamp duty on property sales

Conveyancing Stamp Duty on property purchases, is the second largest source of state and local government direct revenue, generating 22% of direct revenue. In most states, stamp duty is levied on the sale or transfer of land (including improvements), and/or on the sale or transfer of business assets. Different rates of duty are applicable to residential and commercial property.

All states have progressive rate scales, meaning the marginal rate of stamp duty increases with the value of the property. Different rates and marginal rate thresholds apply across the states. There are also a range of exemptions, such as concessions for first home buyers, regional property and other groups which vary in different states (see table 4).

As an indication of comparative rates of stamp duty across states, Chart 4 shows the value of duty payable by state on commercial properties valued at $300,000, $500,000 and $1,000,000.

Transaction taxes such as stamp duty can dampen 'allocative efficiency' across the economy because they can discourage investors and homeowners from investing in property improvements and discourage people or businesses from relocating to more efficient locations.

As a share of GSP, the states collected an average of 1.1% of GSP in stamp duty in 2015-16 (see Chart 5). NSW and Victoria (both 1.6% of GSP) took the most stamp duty as a share of their GSP, reflecting robust housing market conditions in both states. Queensland (1.0%), South Australia (0.9%) and Tasmania (0.8%) were lower, while Western Australia (0.7%) took the least stamp duty as a share of GSP, possibly reflecting a weaker housing market in WA in that year.

Table 4: Stamp duty rates and thresholds, July 2016

	Commercial property			Residential property (principal place of residence)		
State	**Maximum Threshold**	**Min rate**	**Max rate**	**Maximum Threshold**	**Min rate**	**Max rate**
NSW	$1,001,000	1.25%	5.50%	$3,000,001	1.25%	7.00%
Vic	$960,001	1.40%	5.50%[e]	$960,001[f]	1.40%	5.50%[i]
Qld[a]	$1,001,001	1.50%	5.75%	$1,000,001	1.00%	5.75%
SA[b]	$500,001	1.00%	5.50%	$500,001	1.00%	5.50%
WA	$500,001	1.90%[c]	5.15%	$725,001	1.50%[g]	5.15%
Tas	$725,001	1.75%[d]	4.50%	$725,001	1.75%[h]	4.50%

(a) A minimum threshold of $5,000 applies *in Queensland.*

(b) From 7 December 2015, South Australia reduced its transfer duty rates by one-third on non-residential land and non-primary production land. Duty rates will be reduced by a further third from 1 July 2017, and will be abolished by 1 July 2018.

(c) A concessional rate applies to the purchase of a small business below $200,000

(d) Duty of $50 applies for values below $3,000.

(e) For properties valued between $130,000 and $960,000 the marginal transfer duty rate is 6%. For properties valued at $960,001 or more a flat 5.5% rate applies.

(f) A concessional rate applies to principal places of residence valued between $130,000 and $550,000.

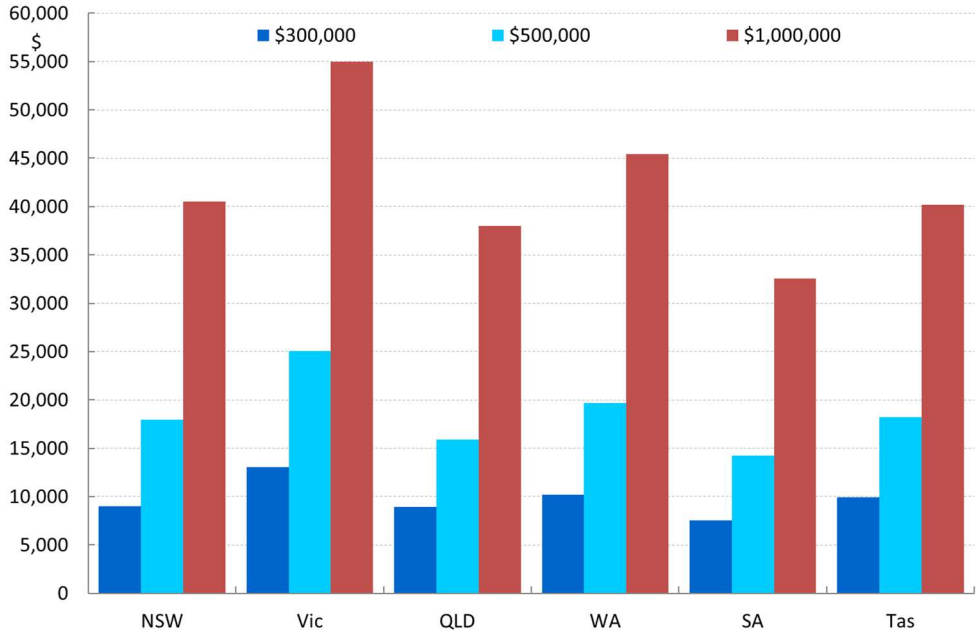
(g) This concessional rate applies to principal places of residence up to $100,000.

(h) Duty of $50 applies for values below $3,0000

(i) For properties valued between $440,000 and $960,000, the marginal transfer duty rate is 6%.

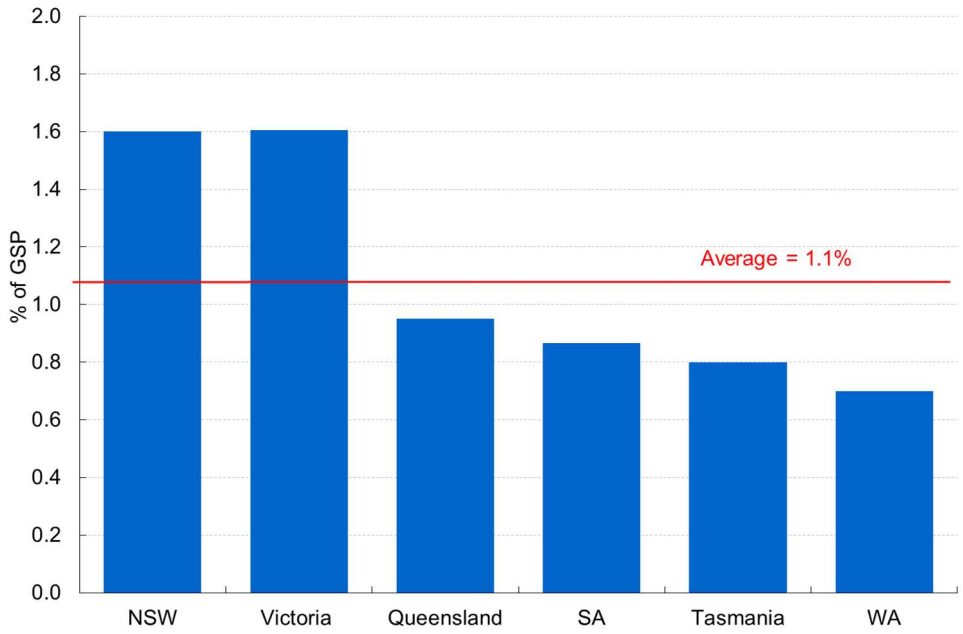
Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17.

Chart 4: stamp duty payable on commercial property, by state and property value, 2015-16



Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17.

Chart 5: stamp duty on property as a share of GSP, 2015-16



Source: ABS Taxation Revenue Australia, 2015-16; ABS Austalian National Accounts, State Accounts

Land taxes

All States and territories except for the Northern Territory levy an annual land tax on the unimproved value of total holdings of land, excluding principal residences. Land used for primary production is exempt or deductible in all states. Other exemptions include caravan parks and aged care facilities in some but not all states. Land tax is calculated using progressive tax scales and tax-free thresholds that vary from state to state (see Table 5). In assessing the value of land, most states determine the value at a specified time in the year, but NSW uses an average value over the previous three years. As an indication of comparative rates across states, Chart 6 shows the amount of land tax payable on properties valued at $300,000, $500,000 and $1,000,000.

Western Australia, South Australia and Tasmania apply the general rate scales to all types of property and ownership, other than a main place of residence. In NSW, Victoria and Queensland, different tax scales apply to commercial properties and to properties owned by non-concessional businesses and special trusts (see table 6). From 2016, Victoria will levy an additional 0.5% 'absentee owner' annual surcharge on land owned by investors who do not reside in Australia.

Relative to each state's GSP in 2015-16, the states collected an average of 0.4% in land taxes (see chart 7). South Australia has the highest rate of land tax and collected the most as a share of its GSP (0.6%), followed by NSW (0.5%) and Victoria (0.5%). Western Australia (0.4%) and Tasmania (0.4%) were on par with the national average, while Queensland (0.3%) collected the least land tax as a share of its GSP.

Table 5: General land tax rates by state, 2016

State	Minimum Threshold	Maximum Threshold	Minimum Rate	Maximum Rate
NSW	$482,000	$2,947,000	1.60%	2.00%
Vic	$250,000	$3,000,000	0.20%	2.25%
Qld	$600,000	$5,000,000	1.00%	1.75%
SA	$332,000	$1,108,000	0.50%	3.70%
WA	$300,000	$11,000,000	0.25%	2.67%
Tas	$25,000	$350,000	0.55%	1.50%

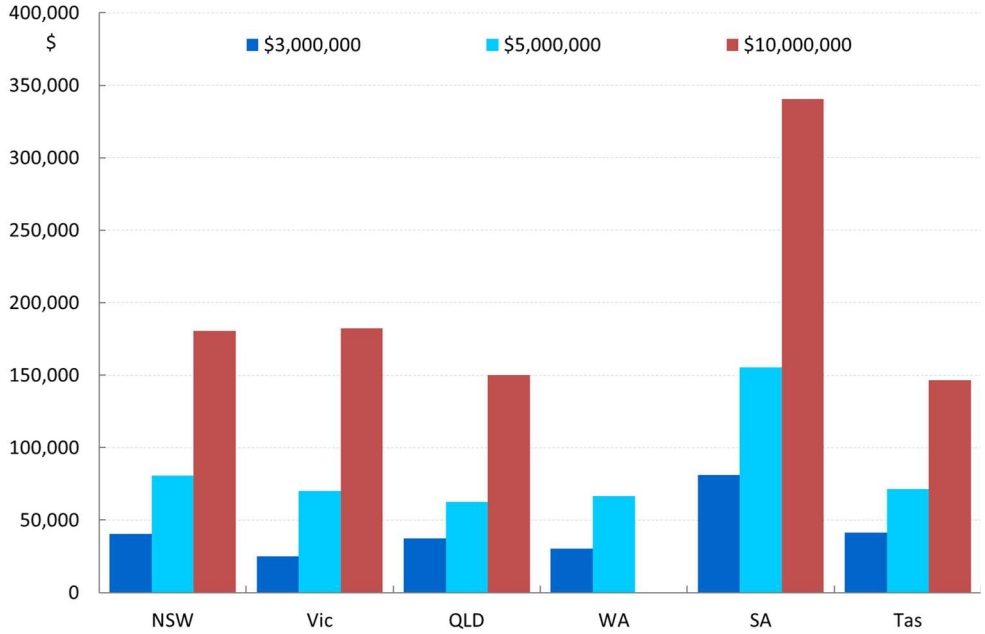
Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17

Table 6: Land tax scales by state: commercial property or properties owned by non-concessional companies and special trusts, 2016

State	Minimum Threshold	Maximum Threshold	Minimum Rate	Maximum Rate
NSW	-	$2.947m	1.60%	2.00%
Vic	$25,000	$3.0m	0.375	2.25%
Qld	$350,000	$5.0m	1.70%	2.00%

Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17

Chart 6: land tax payable on commercial property, by state and property value, 2015-16



Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17

Chart 7: Land tax revenue as a share of GSP, 2015-16

Source: ABS Taxation Revenue Australia, 2015-16; ABS Austalian National Accounts, State Accounts

Motor Vehicle fees and charges

The states impose a range of taxes, fees and charges on vehicle registrations and transfers of ownership. Registration transfer charges (vehicle stamp duty) are generally based on the price of the vehicle or its market value. A variety of methods are used by the states in setting rates. Passenger vehicles are generally treated differently from commercial vehicles. Victoria charges different rates for new and used vehicles, while Queensland distinguishes between vehicles according to their engine size (see Table 7).

Annual motor vehicle licence registration fees also apply for vehicles to be driven on public roads. These fees are differ across states and are based on either the weight of the vehicle or the size of the engine (number of cylinders). Registration fees can include a motor vehicle licence fee, a compulsory third party (CTP) insurance premium and a recording or processing fee. Vehicles designated for business use have different rates in some states. Motor cycles have separate flat fees in all states.

As a comparison across states, the various motor vehicle fees payable in 2016 on a 2016 4-cylinder Toyota Camry Atara SL (1,460 kg tare weight) that is to be used as a business vehicle are shown in Table 8.

On a state GSP basis, an average of 0.6% of GSP was collected in motor vehicle fees in 2015-16 (see chart 8). Queensland (0.7% of GSP) and Tasmania (0.7%) collected the most motor vehicle fees as a share of their GSP. NSW (0.6%), Victoria (0.6%) and South Australia (0.6%) were on par with the national average. Western Australia collected the least in motor vehicle fees (0.5%).

Table 7: stamp duty on the value of selected passenger vehicles, 2016

Vehicle value ($)	NSW	VIC		QLD		WA	SA	Tas
		New	Used	4 cyl	6 cyl			
30,000	900	960	1,260	900	1,050	1,050	1,140	900
40,000	1,200	1,280	1,680	1,200	1,400	2,000	1,540	1,600
50,000	1,600	1,600	2,100	1,500	1,750	3,250	1,940	2,000
60,000	2,100	1,920	2,520	1,800	2,100	3,900	2,340	2,400

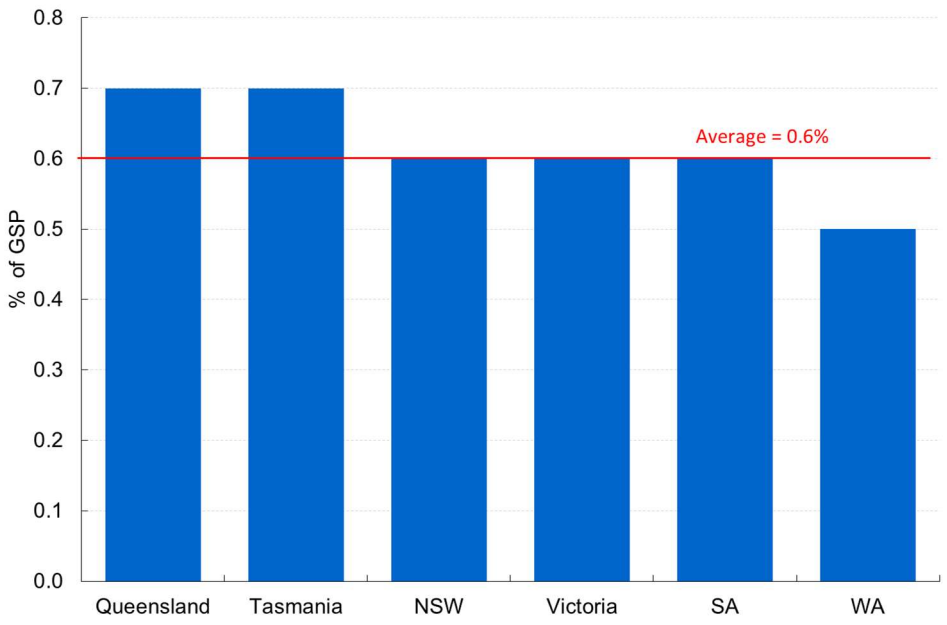
(a) Includes CTP levies, and any applicable insurance duty
(b) Figures are average premiums for metropolitan region.
Net of applicable input tax credit entitlements
Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17

Table 8: Motor Vehicle business registration fees: 2016 Toyota Camry Atara

$ payable	NSW	Vic	QLD	WA	SA	Tas
Licence Fee	353.00	284.70	300.00	313.80	180.00	196.38
CTP Insurance	898.98	502.70	368.60	409.35	500.00	338.00
Recording Fee	0	0	0	12.10	22.00	0
Other Fees and Levies	0	0	52.30	0	32.00	42.00
Total	**1,242.98**	**787.40**	**681.90**	**735.25**	**734.00**	**576.38**

Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17

Chart 8: Motor vehicle fee revenue as a share of GSP, 2015-16



ABS Taxation Revenue Australia, 2015-16; ABS Austalian National Accounts, State Accounts

Workers Compensation

Workers compensation is regulated by each state government individually. There are differences in the administration of workers' compensation schemes across states, and insurers play different roles based on the rules and regulations in each state. In Tasmania, NT, WA and ACT, private insurers administer workers' compensation. In Victoria, NSW and SA, private insurers operate in conjunction with government authorities. In Queensland, the state government administers all workers' compensation insurance directly.

Premiums are regulated by each state government based on factors including employee wages, industry risk ratings and business claims histories. Average workers' compensation premium rates ranged from a low of 1.20% of total wages in Queensland to a high of 1.95% of total wages in South Australia in 2016-17 (see chart 9).

Chart 9: Average workers' compensation premium rates, 2016-17

Source: WorkSafe

Commercial and industrial waste levies

All states except Queensland and Tasmania charge levies for commercial and industrial waste disposed in landfill. The landfill levy is collected by State Departments of Environment. The fees charged by each state vary according to the type of waste, the location of the waste, the location of the waste site and other factors (see Table 9).

Table 9: Commercial and industrial waste levies, 2016-17

State	Levies	Other
NSW	Waste and Environment Levy From 1 July 2016: $135.70 per tonne within specified metropolitan area. $78.20 per tonne within specified regional area.	Trackable liquid waste: $72.70 per tonne. Coal washery reject: $14.20 per tonne.
Vic	Metropolitan landfill: $62.03 per tonne of municipal and industrial waste. Rural landfill: $31.09 per tonne of municipal waste $54.37 per tonne of industrial waste	Asbestos is levied separately at $30 per tonne. Contaminated waste is levied at either $70 per tonne or $250 per tonne depending on the degree of contamination.
Qld	NIL	
WA	From 1 July 2016: $60.00 per tonne for putrescible waste. $50.00 per tonne for inert waste.	
SA	A waste levy is payable by the licence holder of a waste depot for all waste received that is to be disposed of at that depot. From 1 September 2016: $76 per tonne - metropolitan areas $38 per tonne – non-metropolitan	$35.10/kilolitre of liquid waste.
Tas	NIL	

Source: Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17

Emergency and fire services property levies

All states except NSW charge property owners a levy to fund state fire and emergency services. In NSW, the levy is currently collected by insurers on behalf of the NSW Government and is included as part of NSW home insurance policies. On the 30th May 2017, the NSW Government deferred legislation that was set to be introduced on 1 July 2017 to replace the Emergency Services Levy on insurance policies with a property-based fire and emergency services levy.

In other states, the calculation of this levy varies but is typically determined applying a fixed rate and a variable charge component determined by factors including the capital value of a property, location and category of property. The fixed and variable rates differ on a state by state basis. Due to the wide variation in methods applied it is difficult to obtain accurate comparisons of levies charged on a state basis (see table 10).

Table 10: emergency services and fire levies, 2016-17

State	Levy	Method and estimates of calculation
Vic	*Fire Services Property Levy*	- $213 fixed rate from 1 July 2016 for non-residential property. - plus ad valorem rate component based on the property's capital improved value. These rates are differentiated on basis of property type and location. **Estimated annual fee payable for an industrial property with a capital improved value of $1m: $1,863.00 (country fire district); $1067.00 (metropolitan fire district).**
Qld	*Emergency Fire and Rescue Levy*	Collected on behalf of state Government through local government authorities. The levy varies in accordance with the property type and location class. - Brisbane City Council calculates a rate charge by multiplying a property's average rateable value by a dollar rate. The dollar rate used to calculate charges depends on a property's rating category, which is based on its main land use. From 1 July 2016, 66 rating categories are applicable.
SA	*Emergency Services Levy (ESL)*	Effective Fixed Charge of $50 from 1 July 2016 - plus (capital Value of property x effective area factor x effective land use factor x effective levy rate). The area factor varies by region while land use is differentiated on basis of: industrial, commercial, residential, rural/vacant land and other. **Estimated annual fee payable for an industrial property with a capital i value of $1m: $1198.85 (using mid-point regional area 2 factor of 0.5)**
WA	*Emergency Services Levy (ESL)*	ESL rate from 1 July 2016 based on: - the location of the property (5 different categories apply). - the declared ESL rate for that declared category (6 different rates apply). - the property's Gross Rental Value determined by Valuer General. - the declared maximum and minimum ELS charge thresholds which are based on what the property is used for.
Tas	*Fire Support Contribution Levy*	Levied by local councils on behalf of the Tasmanian Government at a rate that varies across regions. - Hobart City Council charges a levy of 1.29 cent in the dollar from I July 2017 of the Assessed Annual Value of a property.

Source: State Offices Of Revenue and Fire and Emergency Services Departments, Brisbane City Council & City of Hobart Council

Royalties

In addition to taxes, fees and charges, the states collect royalty revenue from mining activities in their states. The royalty is a price charged by government for the transfer of the right to extract a mineral resource. Two systems are used across most states for the calculation of royalties:

- Specific rate, calculated as a flat rate per tonne produced.
- Ad valorem, calculated as a proportion of the "royalty value" of the mineral, ranging from 2.5% to 12.5% of the value of mining output.

In Tasmania and the Northern Territory mineral royalties are calculated partly (Tasmania) or wholly (Northern Territory) on the basis of mining profits. Table 11 provides a broad summary of the royalty system and rates which apply in each state and territory. Royalties play an important role in generating revenue for state governments, particularly in WA, SA and Qld (see table 12).

Table 11: Mineral & petroleum royalty rates by state and territory

state	Royalty type	Ad valorem or profit rates	notes
NSW	Specific/ad valorem	4.0 – 8.2	Coal – deep underground 6.2%, other underground 7.2%. open cut 8.2%; other minerals 4% ex-mine; exception is profit royalty for specified Broken Hill mines. *Petroleum: 10.0% at well-head*
Vic	Specific/ad valorem	2.75	*Petroleum: 10% at well-head*
Qld	Specific/ad valorem	2.5-12.5	Coal 7-12.5%, other minerals – fixed rate option 2.7%, variable rate option 2.5-5% based on price. *Petroleum: 10% at well-head*
SA	Specific/ad valorem	3.5-5.0	Refined products and industrial 3.5%, ores and concentrates 5%, extractive 55 cents per tonne. New mines may qualify for a concessional; rate of 2.0% for the first five years. A concessional rate of 1.5% may apply to mines that were operating prior to 1 July 2011, for a period of up to five years. *Petroleum: 10% at well-head*
WA	Specific/ad valorem	1.65-7.5	Mainly ad valorem: in general, ores 7.5%, concentrates 5%, and metals 2.5%. Gold is 2.5% based on price. Export coal 7.5%, specific royalty on coal not exported. *Petroleum: 10% or 12% at well-head*
Tas	Specific/hybrid - ad valorem and profit-based royalty	1.9% on net sales plus profit royalty	Maximum royalty is 5.35% of net sales. A rebate of 20% is available for the production of a metal within the State. *Petroleum: 12% at well-head*
NT	Profit	20	Based on net value of a mines' production where the first $50,000 is not liable to royalty. *Petroleum: 10% at well-head*

Source: Department of Treasury, WA, Overview of state taxes and royalties, 2016-17; Dept of State Development WA, Mineral Royalty Rate Analysis Final Report, 2015

Table 12: Total royalty revenue by state and territory ($m)

	NSW	Vic	QLD	WA	SA	Tas	NT
2016-17 ($m)	1,257	85.0	3,549	3,842	240	20.3	170
share of state revenue, %	1.6	0.1	6.6	15.0	13.1	0.4	2.6

Source: State Government Budgets

Priorities for reform of state-based taxes, charges and levies on business

Key priorities for reform of state taxation arrangements that affect business include:

- State Governments collectively work towards **real and meaningful harmonisation** of reporting and payment arrangements for taxes, fees and levies on business, so as to reduce the compliance costs for businesses operating across multiple jurisdictions.
- State Governments collectively work towards **minimising the complexity** of taxes, fees and levies on business, by simplifying tax scales and thresholds and by applying definitions in a uniform manner across states. Reducing complexity reduces compliance costs for all businesses.
- **Review all exemptions, definitions and concessions** that apply to taxes, fees and levies on business, with a view to reducing complexity and adopting consistent definitions and applications across states. Reducing the complexity and variety of exemptions will reduce compliance costs for all businesses.
- Introduce **regular and effective monitoring of the compliance costs** borne by businesses, to clearly identify cost impacts and priority areas for reform.
- Move the administration, collection and monitoring of all taxes, fees and levies on business to **online and digital systems**, so as to reduce compliance costs and requirements.
- Given the absence of the prospect in the medium term of higher GST revenue, alternative ways to finance **the removal of the most inefficient state taxes** should be investigated, as identified and recommended by the national Henry tax review some years ago).