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19 January 2017

The Hon Michael McCormack MP
Minister for Small Business
Parliament House
CANBERRA ACT 2600

Dear Minister

VACC Submission – 2017-18 Federal Budget

Please find attached the VACC Submission to the 2017-18 Federal Budget. In making the Submission, VACC acknowledges the Federal Government's commitment to ensuring the wellbeing, sustainability and development of the nation through the priorities of the Federal Budget.

The Automotive Industry operates within a highly competitive market that is subject to many challenges including new business models, rapidly changing technologies through the emergence of electric and autonomous vehicles and greater skills and training requirements.

In its submission, VACC has noted critical issues pertaining to the development of the Federal Budget along with suggested reforms and recommendations that would facilitate positive outcomes for the Automotive Industry, the business community and the general public. Among these are a higher emphasis on returning the budget to surplus through government spending reform, greater contestability and transparency of government service delivery, the delivery of company tax reductions, reform of the Automotive Transformation Scheme and better targeting of government investment towards the apprenticeship training system.

VACC, on behalf of its members, and the industry, thanks the Federal Government for the opportunity to make this Submission, and remains available to assist Government in the provision of advice and support.

Please do not hesitate to contact the VACC should you require any additional clarity or further information.

Yours sincerely

GEOFF GWILYM

Attach.

VACC Submission

2017-18 Pre-Budget Submission to Treasury

19 January 2017

VACC You're in good hands

FAPM Federation of Automotive Products Manufacturers

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About VACC

The **Victorian Automobile Chamber of Commerce (VACC)** is pleased to make a pre-Budget submission to Treasury as preparations are made for the 2017-18 Federal Budget.

VACC represents over 5,000 small and medium sized businesses and has, for nearly 100 years, been a strong and consistent voice for the retail motor industry in Victoria, Tasmania and nationally.

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

Currently, there are a number of budgetary and policy issues that VACC believe should be remedied to assist the predominantly small to medium sized businesses that dominate the retail motor industry.

The Automotive Industry

The automotive industry consists of approximately 65,000 businesses employing over 365,000 personnel nationally and contributed $38.3 billion towards Australia's Gross Domestic Product (GDP) in 2015/16. The industry is comprised of businesses with the *Automotive Retail, Service and Repair* sector (RS&R); *Bus, Truck and Trailer Manufacturing*; *Commercial Vehicle Body Manufacturing* and the *Automotive parts and Component Manufacturing* sector. Ancillary sectors also included within the automotive industry are the *Marine*, *Outdoor Power Equipment* and *Bicycle* sectors. The industry is also a large employer of apprentices, with small business owners contributing to the training of 30,000 apprentices annually.

Executive Summary

In making this submission, VACC acknowledges the Treasury and Federal Government's commitment to the wellbeing, sustainability and development of the nation through the priorities of the Federal Budget.

The automotive industry is a significant contributor to the Australian economy, but is facing transformative structural change that is placing increasing pressure on business viability, profits and growth. In particular, the arrival of electric and autonomous vehicles will not only disrupt the skills capability of the automotive sector, but will also impact upon urban infrastructure, planning and people's mobility.

While apprenticeship training is the key to future automotive business viability, training has been undermined by state and federal policy decisions in recent years, via cuts to employer incentives, the removal of the industry managed apprentice mentor and advisor program, policies that limit industry-led training and wage increases. This has led to a marked decrease in apprentice hiring and commencements in Victoria, as well as nationally.

It is in this context that the VACC makes the following recommendations towards the 2017-18 Federal Budget, with an emphasis towards supporting business growth, confidence and investment.

VACC RECOMMENDATIONS

- That a return to budget surplus is of high priority
- That government spending be capped at a maximum level of 25 per cent of GDP
- The promotion of greater contestability in the delivery of key government services
- Greater transparency in government decisions concerning the awarding of government funded programs and services
- The delivery of company tax reductions
- That government policy decisions are framed with the objective of avoiding an uncontrolled collapse of local component manufacturing. This includes delivery of the Automotive Transformation Scheme

(ATS) to ensure industry can build a future past 2017 that is not dependent on local vehicle manufacture, or plan an orderly exit from industry

- The allocation of $100 million of funds from the Automotive Transformation Scheme towards 10-year industry-led study into the impact of autonomous vehicles on businesses and the broader community
- The elimination of the Luxury Car Tax (LCT) or an increase in the threshold of the LCT to $125,000
- A greater investment in automotive apprenticeship training to bolster the skills capacities required with new technologies including autonomous vehicles, while upholding an industry led system
- Targeted investment to address declining confidence in industry of the vocational education sector, with improvement in industry engagement, ongoing support for industry programs that deliver results and incentives to improve overall quality of training delivery and assessment
- That funding for the Export Market Development Grants (EMDG) scheme be restored to $200 million annually over the budget forward estimates
- The promotion of minimum national numeracy and literacy standards, and
- On-going reductions in business red-tape

KEY POSITIONS

The Economy and Fiscal Policy

Remarkably, Australia has experienced constant annual economic growth over the past 25 years. This growth has been predicated on sound monetary and fiscal policies that have had economic expansion at their core. The unexpected 0.5 per cent fall in Australia's GDP in the September quarter 2016 however, highlights that future growth cannot be taken for granted and that key spending reforms are necessary in order to support economic growth moving forward.

In this context, VACC views the deteriorating federal budget deficit with great concern. Although the budget deficit is forecast to be in surplus in 2020-21, the trajectory and scale of the budget deficit is forecast to worsen in the intervening period. VACC considers this budget deterioration as a threat to achieving a credible surplus by 2020-21.

A key element of this budget deterioration is the growth in government spending since the Global Financial Crisis (GFC). Prior to the GFC, government spending as a proportion of GDP was approximately 23 per cent. Since the GFC, the share of government spending has grown to 26 per cent of GDP. This increase in government spending is directly correlated to the deterioration in federal budget deficit over time.

VACC believes that in order to realistically achieve a budget surplus by 2020-21, government outlays should be capped at a maximum of 25 per cent of GDP. This policy measure would assist in the following ways:

- It would give the business community confidence that the budget deficit was being addressed in a credible manner. This would stimulate businesses to invest in growing their businesses and employing more people, knowing that there is policy certainty in addressing the country's finances

- It would stop the crowding out of private investment by the government sector. GDP estimates show that increasing levels of government spending over time are matched by proportionate decreases in private investment. This constitutes an unsustainable situation and private investment needs to be the key driver of economic growth to stop further budget deterioration

- There is the risk that if stringent fiscal spending control is not undertaken, Australia could lose its AAA credit rating which would increase Australia's interest costs in servicing the budget deficit, thus rendering a return to surplus less likely. This would further undermine business sentiment and investment.

Government Services

VACC believes that in order to progress a return to budget surplus, greater efficiency and savings are required in the provision of government services. A key element towards this initiative is to promote greater contestability of government services. This could be achieved through the expansion of public/private partnerships, including the not-for-profit sector, for the delivery of a range of government services including education, trade and investment promotional services, company registrations and free trade agreements.

It is also critical that there is greater transparency in government decisions concerning the awarding of government funded programs and services. A key example involves the move from Industry Skills Councils to the creation of super-sized Service Skills Organisations (SSOs). Automotive industry stakeholders remain perplexed and disappointed as to how a successful model of industry-led engagement that resulted in real improvement in the design of automotive Training Packages by Auto Skill Australia, was quashed through the creation of SSOs that resulted in the automotive industry effectively losing its voice through the restructure of engagement arrangements. This automotive training package design function was awarded by government to a consultancy firm with no automotive industry knowledge and without adequate explanation or transparency concerning the decision.

Similarly, the apprentice Mentor and Advisor Program (MAAP), a government funded program that delivered real improvements in the retention rates of apprentices nationally that was lauded by employers, was quashed without explanation by government. This lack of transparency undermines the faith of business in the awarding of government contracts, and is a significant issue of concern and detriment for the automotive industry.

Company Tax Reductions

VACC views business strength and confidence as a key driver of economic growth and therefore recommends that the Government prioritise budget proposals that will maximise the opportunities for economic growth.

Despite a low interest rate environment, business investment levels remain at record lows. Businesses need incentives and certainty to employ more workers and invest in training and development, which in turn, will support wage growth. To this extent, VACC supports the Government’s efforts to lower the company tax rate to 25 per cent over a decade through annual reductions. This is all the more critical given the global trend of reducing company tax rates, particularly in the US and UK.

Despite the fact that many countries have significantly lower company tax rates than Australia, a more competitive corporate tax rate will increase investment in Australia from both foreign and local investors, which boosts incomes for local workers, domestic businesses and households.

Certainty over future tax cuts will give investors the confidence to make decisions concerning the expansion of assets, capital equipment and the hiring of labour. The tax cuts however, must be extended to businesses of all sizes to extract maximum economic benefit.

Reform of the Automotive Transformation Scheme

The Australian automotive industry is experiencing profound change, way beyond the closure of local car manufacturing. This transition involves the rapid expansion of new vehicle technologies, the creation of new business models and the imminent introduction of electric and autonomous vehicles. These developments will not only challenge the skills capability of the automotive industry to effectively service and repair these technologies, but will also impact upon urban infrastructure, planning and mobility.

The implications of a mass uptake of electric and autonomous vehicles is yet to be fully understood or properly analysed. Given the potential for disruption across the community, VACC believes that a thorough impact analysis is critical.

VACC recommends that the government supports a key industry-led study of the potential impact of autonomous vehicles on local automotive businesses and the broader community. This could be facilitated through the following:

- That a proportion of the remaining funds within the Automotive Transformation Scheme (ATS) be directed towards the Automotive Retail, Service and Repair sector (RS&R) to support a 10-year study that evaluates the upcoming technological changes in vehicle mobility on the business and wider community

- That the value of funds allocated from the ATS for the 10-year study be $100 million

- The funds would also be used to assist the process of structural adjustment for businesses within the RS&R sector that are in transition to new vehicle technologies of electric vehicles and autonomous vehicles

- The funds will also be used to support vehicle parts manufacturers and training for engineers within the sector. It is critical that training providers maintain the delivery of training for engineers, as training numbers decline over time.

Given that the automotive RS&R sector will represent the face of Australia's automotive industry after local car manufacturing ceases this year, it is imperative that the RS&R sector be supported to conduct this study for the benefit all stakeholders, including federal and state governments, through an industry led initiative that is funded by a proportion of the remaining funds within the Automotive Transformation Scheme as indicated.

Luxury Car Tax

VACC argues that the application of the Luxury Car Tax (LCT) in its current form, is unfair and discriminatory towards motor vehicle dealers and consumers.

Buyers of vehicles in rural and regional communities in particular, are penalised through a necessity to purchase four-wheel drive vehicles capable of performing transport tasks on roads and conditions that are unsuitable for regular vehicles. Many of the vehicles capable of meeting the needs of rural buyers, such as a Mitsubishi Pajero, Toyota Land Cruiser and Nissan Patrol, are priced above the LCT threshold.

VACC recommends that this inequity be addressed in either of the following ways:

- Abolishment of the Luxury Car Tax, or
- Raising the threshold LCT level to a minimum of $125,000.

International Trade

Increasingly, international trade is being dominated by 'global supply chains', where products are 'made in the world' and not in or for any particular countries. Australia's location within the highly competitive Asia-Pacific Region demands that we strive to reduce costs and increase innovation in order to maintain and grow our globally competitive position. This requires that the government seriously commits to deep engagement in global supply chains and develops appropriate programs to assist business to engage in them.

The Export Market Development Grants (EMDG) scheme, administered by Austrade, partly supports export promotion expenses of eligible enterprises in order to boost exports of Australian produced goods and services. Funding for this program has been eroded in recent years, to the detriment of many supply chain companies, including automotive component suppliers.

In 2015, a review of the EMDG found an industry multiplier of 7 for every dollar invested through the scheme. VACC therefore recommends that funding for the EMDG scheme be restored to $200 million annually over the budget forward estimates, in order to secure Australia's competitiveness within global supply chains and international trade.

Apprenticeship Training

For automotive businesses, an industry driven apprenticeship system remains the preferred model of skills formation and transfer. In recent years however, investment in Vocational Education and Training (VET) by both state and federal governments has decreased in real terms, as evidenced through the latest (2015) VET finance figures, and this is of deep concern to the automotive industry.

This decrease in government investment has serious consequences both in terms of the ability of the system to generate sufficient skilled workers and in the diminished role of industry engagement towards the design of VET Training Packages. The automotive industry in particular, is on the verge of unprecedented technological change with the rapid emergence of electric and autonomous vehicles, and these technologies require both a targeted and strengthened investment in industry-led VET skills training.

VACC is also concerned about the rapid decline in VET student numbers within automotive trades. Over the last three years, automotive student commencement numbers have fallen by 27 per cent. This fall is contributing to crippling skill shortages within the industry. It is estimated that there is currently a national shortage of around 19,000 automotive technicians, and this is limiting the capacity of businesses to expand and generate greater profits.

VACC also believes that standards for training delivery for registered training providers (RTOs) should be improved and this could be achieved through the development of a new framework that incentivises RTO funding to quality training outcomes. Businesses are dissatisfied with delivery quality, changing government policy around programs and delivery agents to the point where they are distrusting of new service agents with no experience, understanding or interest in genuinely engaging and delivering what industry needs to invest in employment and training.

VACC observes that both successive Labor and Coalition Governments have failed to implement any meaningful policy measures to address the decline in VET student numbers and the quality of RTO training. Strong investment is required to be returned to the VET system to ensure the labour market has the skilled workers available to ensure growth in productivity.

VACC therefore recommends the following:

- The establishment of an apprenticeship taskforce involving industry, federal and state governments to examine the issues impacting on apprenticeships. Employer needs should be at the forefront of this taskforce agenda

- An increase in apprenticeship support funding. In particular, a reinvestment in apprentice mentoring programs by federal government, such as the apprentice Mentor and Advisor Program (MAAP), which whilst in operation successfully boosted apprentice retention and completion rates within automotive and many other industries

- Promotion of the value of apprenticeships and traineeships. This could be achieved by government engaging with industry to better promote apprenticeship and traineeship pathways as high value employment opportunities for all Australians

- Funding of a pilot entry level traineeship for school leavers. This would include identification of qualifications with high employment outcomes and the attachment of employer incentives aimed at assisting young school leavers and the unemployed into an apprenticeship or traineeship.

These measures would help arrest the slide in apprenticeship and trainee commencements by reducing the cost of apprentice hiring and incentivising the uptake of apprentice employment by small and medium businesses.

Literacy and Numeracy

The latest NAPLAN, PISA and TIMMS results demonstrate a decline in Australia's education performance both nationally and internationally in science, maths, reading and writing. There are very few occupations in the workforce that do not rely on proficiency in these subject areas. Student literacy and numeracy outcomes on leaving secondary school are at critically poor levels resulting in a disincentive by employers to employ youth. Without intervention, this declining performance will continue to result in students being inadequately prepared for the workforce, undermining our nation's ability to improve productivity.

Parents, industry and the wider community have the right to expect that the Australian education system (regardless of state or territory) educates children to achieve a minimum standard of literacy and numeracy which meets the demands of the labour market and everyday life beyond the school gate.

VACC supports the Federal Government's literacy and numeracy policy to encourage states and territories to implement minimum standards, following the lead of both Western Australia and New South Wales. VACC believes the government needs to incentivise other states to implement minimum standards through education funding and the national partnership. Minimum standards offer a systematic approach from primary school through to Year 12, targeting intervention for students at risk of falling short of the standards required in modern workplaces and expected by Australian businesses.

In addition to literacy and numeracy skills, it is widely accepted that with the emergence of new technologies, and jobs moving from low-skilled to high-skilled, that there must be an increased emphasis on science, technology, engineering and maths (STEM) skills and teaching. In order for all school leavers and graduates to have STEM proficiency, STEM needs to permeate across all school and university curricula, and not be just taught in stand-alone subjects. Teachers need to be specialists in STEM skills in order to teach them adequately, and there should be centres of excellence for teachers to build skills and share passion for both the teaching and the subject material.

Whilst the running of school systems is the responsibility of state and territory governments, the Commonwealth has the ability to pull levers to encourage states to adopt policies to advance student proficiency in STEM. Further, a focus on STEM in certain selected industries fails to address the needs of all industries that rely on minimum standards in maths, science and literacy.

Business Red Tape Reduction

VACC recommends that the government continue to work to reduce the administrative burden on businesses. On-going reductions in red tape will reduce operational costs, particularly for small businesses, which can improve business performance, profitability and employment.