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Victorian State Budget  
Submission 2014

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### Victorian State Budget Submission 2014

The Australian Retailers Association (ARA) is urging the government to use the 2014 Budget to assist retailers in Victoria in a difficult operating environment. In the last ten years, the structure of the retail sector has shifted and evolved as a result of globalisation, advances in the digital economy, and changes to business practice policies (such as the carbon tax). In addition, the retail sector has experienced various economic difficulties from the manufacturing downturn, over regulation at a Federal level, an inflexible wages system and high Australian dollar having a significant effect on the performance of the industry through online competition. The Victorian division of the ARA offers support, information, and representation to over 3600 member retailers across the State, and works closely with the Victorian Government and other industry participants to ensure the long-term viability and position of the retail sector in this State as a leading contributor to Victoria's economy. Implementation of business-related commitments by the Coalition Government remains a priority for retailers. Setting key short-term policy expenditure priorities and delivering the vision will drive increased State competitiveness. Reform of regulation, reduction in tax along with duties for the business and consumers will see the Victorian economy and Victorian retailers return to their traditional economic leadership roles in Australia.

## 442,581 Jobs in In Victoria

<b>Total Retail Jobs - Direct and indirect</b>	<b>442,581</b>
<b>Direct Employment (as of Aug 2011)</b>	<b>310,700</b>
<b>Indirect jobs supported by retail in other industry sectors</b>	<b>131,881</b>
% of total for state	10.9%
Compensation of employees (2009-10, current) bln	\$8.8
% of total state	5.9%
Total factor income (2009-10, current) bln	\$12.4
% of total for state	4.6%
Number of businesses (as at June 2009)	35,780
% of total for state	6.9%

Sources: ABS Labour Force, Australia, detailed quarterly 6291.0.55.003; ABS State National Accounts, 5220.0; ABS Count of Australian Businesses, 8165.0



### Key Messages

Domestic economic conditions remain soft throughout the Victorian economy thanks to the high Australian dollar and wage costs hitting manufacturing and the services sector. The Australian economy is suffering from a lack of confidence due to over regulation and uncompetitive policies, which are leading to low productivity and an inefficient tax system. Business profitability has been hit hard by rising cost pressures and confidence remains fragile. Jobs and investment are now at risk across many industries, especially our key trade exposed sectors, of which retail is now one. Retail businesses are awaiting the Senate to pass cuts to business burdens such the carbon tax to see their costs reduces and the burned lifted on consumers, the Victorian Government also needs to fill this gap and continue to boost business savings along with relieve consumer pockets.

The ARA and its members have a strong vision for the retail industry based on free markets and growth, productive and innovative businesses, responsible individual initiative supported by Government where appropriate but removing

Government interference.

The ARA is committed to promoting retail as a viable and exciting career choice for young people, employment opportunities for a diverse workforce and to retaining and developing the highest standards of practice within individuals at all levels of the industry as well as assisting members to deal with new technologies and a changing trading environment through education and skills training. This is an area which has been negatively impacted across the services sector through changes by the Victorian Government Training Guarantee funding model in recent years which needs addressing in this budget.

In this environment, the Government must look at what it can do to responsibly promote the role of the private sector as the key driver of economic growth, jobs, investment and improved living standards. To this end the ARA has been working with the State Government and the Department of Business and Industry to attract new retailers to base their backend operations in Victoria, we have examples of recent entrants such as Specsavers now manufacturing in Port Melbourne employees hundreds of Victorians without a dollar of Government subsidy to Australian retailers such as Bakers Delight, Cotton On and Forever New rapidly expanding operations from their Victorian heartland overseas.

The good news is that the Government has a solid base to build further growth. The Victorian economy is holding up under difficult circumstances. The State's overall financial position, while under pressure from weak domestic Australian conditions remains relatively strong considering the impact manufacturing job cuts have had. It is important to remember that the services sector accounts for up to 80% of the economy and is Victoria's biggest private employer.

The State Government must support the Victorian retail industry through practical actions that lower business costs, raise productivity and improve private sector investment and jobs growth.

**The Budget commitments the ARA wishes to see are:**

- Responsible economic management and expenditure restraint
- No new taxes, or increases in existing taxes, with continued reduction in business tax and duties
- Continued regulation reform and reduction
- Accelerated private infrastructure investment
- Following dramatic changes to both Commonwealth and State education and training reforms a commitment to learn from the successes and failures particularly in the services sector of VET reforms
- Keep Victoria's AAA credit rating
- The continued abolition of clearways in inner Melbourne due to their disastrous effects on retailers
- Industrial relations advocacy to support more flexible employee working hours in the retail sector
- Cuts in Workcover premiums
- Continued support for the Regional Growth Fund and broadening of grant applications
- Support of power infrastructure reforms and development including the removal of the carbon tax to lower utility costs to retailers and consumers including increased access to inexpensive energy reserves in the State
- Support major infrastructure development including the east west tunnel and airport rail/light rail to assist visitor numbers efficient transport links
- Continued support for the Streetlife programme to help retailers increase new skills, business productivity and employment
- Further reductions in the amount of payroll tax paid by business
- Support the lowering of the low value import threshold on GST and pass that extra revenue on as tax cuts

These and other initiatives stand to benefit Victorian business and the wider community by raising productivity and improving the prospects for investment, jobs and reforms must be delivered in the Budget.

**The priorities for retail business in this respect are for the Government to:**

- Support small business

- Undertake retail tenancy lease reform and competition transparency
- Maintain funding for the Regional Growth Fund and Streetlife
- Give tax and stamp duty relief
- Support skills through VET in the retail sector by offering training subsidies that reflect the importance of the services sectors
- Continue planning reform
- Reduce red tape burden including local Government

#### **The rising cost of doing business:**

- A high tax and stamp duty burden
- Rising energy and utility costs
- Skills shortages in the retail sector caused by reduction in incentives
- Upward pressure on wages
- Access to business finance

The private sector is the key driver of economic growth, jobs and improved living standards and needs the support of a small and efficient Government, which keeps out of the way of business doing business.

The State Budget provides the opportunity to lower business costs, raise productivity and improve competitiveness.

#### **State Tax Reform**

The ARA would support the removal of the following business taxes and our members would support an expansion of the GST base including the low value collection of the GST from overseas to facilitate this:

- Payroll tax
- Stamp duty
- Conveyance and other commercial transaction duties
- Shifting the State's revenue base toward more efficient, productivity enhancing taxes

With the GST being one of the most efficient forms of tax collection ARA members would like to see the original principles set out during its introduction placed back on State and Federal Government agendas.

The ARA sees a possible broadening of the GST revenue base as an acceptable way of abolishing inefficient and burdensome business taxes. Some modelling is necessary to prove efficiencies supporting greater economic growth and the ARA would be supportive of such a discussion initiated by the Victorian Government on this issue.

#### **Regulation reform**

- Fast tracked planning approvals for major projects
- Continue to reduce red tape and local Government bureaucracy
- Review of the number, size, purpose and effectiveness of Victorian regulators that commonly interface with business through the Red Tape Commissioner.

#### **Tenancy reform**

Public lease register:

Creation of a publicly accessible, electronic and centralised lease register is required. Registration requirements would apply to all retail shops and not just those located in shopping centres. This register would be a self-funded register paid via subscription to register information.

Following execution of a retail shop lease, the landlord must lodge a summary of certain details with a central body (likely to be a government authority), including:

- The address of the retail premises
- The name and address of the landlord and tenant
- The 'lettable' area of the premises
- The annual rent for the premises (per square metre)
- Other matters as prescribed.

Matters which might be prescribed include:

- The manner in which operating expenses are determined (for example - is the lease gross, semi-gross or are operating expenses allocated based on proportion of 'lettable' area)
- The frequency and method of rental review
- The nature of the retail business
- Whether the premises are located in a shopping centre and, if so, the size of the centre. The name and address of the tenant remain confidential, with the other details are made available publicly. A capacity for lodging and accessing information online would need to be available
- Agreements outside of the normal lease should also be listed, for example, an agreement where a shop fitting allowance has been given or a premises promotional fund amount has been negotiated, should be listed to ensure full transparency. These examples are not an exhaustive or complete list as issues such as a rent free period should also be shown.

Stakeholders have suggested that:

- A public register be designed to cover its own costs, with a fee payable for access
- Information in the public register database could be aggregated to alleviate confidentiality concerns of landlords and tenants
- There should be a penalty provision included that if a landlord fails to comply by registering a lease within the prescribed timeframe (i.e.: 60 days), a penalty should apply of no less than \$1,000 +GST for non compliance.

### **Infrastructure**

- Construction of the east-west road link
- Continued rail, road and light rail investment
- Melbourne Airport's rail or light rail link to the city.

### **Vocational Education Training (VET)**

The ARA broadly understands the need for the changes in 2012 to the Victorian demand-led Vocational Education Training (VET) system to address quality issues in the delivery of accredited courses. However, ramifications from the changes to funding for retail qualifications has caused a negative impact on retailers and training of their workforces, including business management and future industry leaders across the State.

The industry has ongoing skills needs, indeed skills shortages, as many Victorian national retailers are losing staff to higher paying roles in resource communities; indeed, there is ample evidence of skills shortages in the service and retail sectors as 'boom' areas buy in the skills they need. The reduction of funding subsidy rates, coupled with Commonwealth Government changes will further exacerbate skills shortages and weaken productivity in the retail sector as it becomes increasingly trade exposed. This will require well-trained and qualified staff and managers to take on the industry's new challenges.

The critical issue for the ARA is both quality and consistent retail training available across Victoria;

- To achieve this aim within a demand- driven system the Government must have a well-regulated system.
- The reduction in funding rates for the services sectors is a concern for retail and the ARA would have preferred to see regulation both around the volume of training places and priority qualifications available rather than reduced hourly rates.
- The reality is most small to medium retail businesses will not be able to up-skill staff to an adequate level under the current changes.
- The reduction of the Victorian Training Guarantee and the Commonwealth Employer incentive has already shown a substantial reduction in training enrolments, which is impacting negatively on new employment opportunities and skills development, particularly for younger people seeking their first job

With reduced funding for retail courses there are now fewer TAFEs and private RTOs offering retail courses. One of the current challenges is servicing retailers in regional areas and with the reduced number of providers and reduced funding; this has the potential to further alienate regional as well as suburban retailers.

With the funding reductions to the Victorian Training Guarantee coupled with the changes to the Commonwealth Employer Incentive payment, these changes will further impact negatively on retail traineeships.

- The ARA's view is that there will be a continuing dramatic reduction in traineeship activity occurring due to retailers being reluctant to commit to training without the changed payment.
- The ARA is particularly disappointed that a diploma level qualification is seen as a low-level priority. The retail industry has a history of business owners and managers having little or no formal qualifications and is therefore not seen as a professional career.
- The ARA believes better qualified retailers will make for a more productive sector, which will provide benefits to Government in terms of productivity and employment.
- Victoria has a reputation for well- run, successful retailers and as a retail destination for visitors not just with Australia but from overseas.
- As retailers increasingly face overseas competitors, the sector needs effective skilled staff to tackle the changing business models they face.

The ARA understands these changes were put in place for this financial year; however the industry is now experiencing the real impact of the changes and the ARA seeks the opportunity to provide feedback to Government so quality retail training and education will continue over the coming years, while not impacting on the Government's Budget commitments.

### **Regional Growth**

- Better link key regional cities and repair regional roads in areas of economic importance
- Continued support of the Regional Growth Fund.

### **Utilities**

- Construct a 50-year water and energy plan for Victoria, which encompasses a map of current and likely water and energy sources.
- Develop low cost energy production and delivery to reduce utility costs for consumers and retailers
- Open up low cost energy sources to reduce energy costs

## Victorian year or year retail growth percentage

# Graph

\*Source ABS monthly retail sales figures seasonally adjusted

### Concluding comments

The momentum of economic activity - and consumer and business confidence - has faltered in recent times. The slowdown has been the result of factors outside Victoria however the Victorian Government can use the benefits of sound financial management in recent years to boost the productive side of the economy through the private sector; indeed there is clear evidence the Victorian economy has benefited from solid economic management through difficult times. Victorian retailers are looking to the Government to further demonstrate its pro-business credentials.

Actions must be targeted at improving business cash flow and making it easier for employers to not only maintain existing employment and investment levels, but also confidently expand their operations into the future.

Victorian business is looking to the Victorian Government to use the 2014 Budget to deliver:

- Continued responsible economic and fiscal management and a surplus
- A VET and skills system which maintains Victoria's traditionally high- end services sector
- Business taxation reduction and reduced regulation
- Improvements in the State's infrastructure base
- Lower taxes on consumers
- Lower utility costs and improvements in lower cost energy supply.

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