



Monday, 9 February 2015

Budget Policy Division  
Department of the Treasury  
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Dear Sir/Madam

**MTA Queensland Ideas and Priorities Pre Budget Submission - the 2015 – 16 Federal Budget**

**1. Introduction**

1.1 The Motor Trades Association Queensland (MTA Queensland) responds to the Treasurer Hon Joe Hockey's invitation to submit ideas and priorities for consideration in the preparation of the 2015 – 16 Budget. Our comments are confined to matters that have direct relevance to our automotive industry value chain membership and their business interests which includes vocational training.

**2. Background**

2.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of Queensland's automotive industry located in Queensland. There are some 14,000 automotive value chain businesses employing in excess of 73,000 persons operating in the State.

2.2 It is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland. The Association represents and promotes issues of relevance to the automotive industries to all levels of government and within Queensland's economic structure.

2.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry through the MTA Institute of Technology (MTAIT). The MTAIT is the largest automotive apprentice trainer in Queensland employing 26 trainers based from Cairns to the Gold Coast and Toowoomba and Emerald. MTAIT last financial year accredited courses to in excess of 1500 apprentices and trainees.

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### **3. Budgetary Context - Government**

3.1 The MTA Queensland recognises the Australian Government's fiscal constraints as it prepares the 2015-16 Budget. The structural reform agenda commenced in the 2014-15 Budget should continue in the coming financial year to enable in the medium term, a budget surplus and pay down debt. Essential for our Members making business and investment decisions is a Budget that delivers policy certainty and predictability.

3.2 The 2014-15 Budget outlined an ambitious structural reform agenda designed to drive economic growth and create jobs. We recognise:

- that there must be policy change and fiscal repair to achieve a sustainable budgetary position across the forward estimates;
- that the Government has to take hard decisions to return the budget to surplus and to pay down debt under circumstances which include a deterioration in tax receipts due in part to declining resources prices and lower than expected wage growth; and
- that the soon to be released Intergenerational Report will be important in determining the long term sustainability of current Government policies to return the budget to a credible surplus.

The significant fiscal management challenges to achieve a sustainable surplus in the medium to long term are acknowledged. This is a mutually challenging circumstance for both the Government and tax payers of Australia.

3.3 The MTA Queensland welcomes and is supportive of the policy directions announced in the Prime Minister's Tony Abbott's National Press Club address. It included the cessation of the proposed paid parental leave (PPL) scheme and its replacement with a families package focussed on childcare; and a small business jobs package that has a small business company tax cut of at least 1.5 per cent effective from 1 July as an element.

3.4 We are supportive of the families and childcare package but it is our belief that it should be funded from consolidated revenue and not the proposed 1.5 per cent levy on larger companies. We welcome recent statements which suggest that this 1.5 per cent has been revoked.

3.5 A fundamental need for the automotive value chain is a set of responsible forward estimates which provide a stimulus for a transition from the resources reliant economy to a more general economy that can sustain growth, productivity and employment.

3.6 The Australian economy, based on the experiences of the automotive value chain, is operating below optimum capacity due to a lack of aggregate demand. It appears appropriate that the government should consider implementing further infrastructure programmes such as productive capital works that pays for itself having the capacity to engender demand and productivity

3.7 Essential for the automotive value chain is policy certainty. The 2015-16 Federal Budget must receive bipartisan support to engender confidence and certainty to drive growth and employment.

## 4 Budgetary Context - Automotive value chain

4.1 Recent business surveys have indicated low confidence across the industry sector which includes the automotive value chain. The Australian Chamber of Commerce and Industry Business Expectations Survey found that “business confidence fell for the third quarter in a row” to the end of 2014 and business expectations for the start of the 2015 year were subdued.

4.2 Economic indicators suggest that the domestic economic outlook is softening including low trend growth, increasing unemployment and falling consumer confidence as reflected in the December Australian Bureau of Statistics Retail Trade data. The changes to each of these indicators have significant implications for the automotive value chain.

4.3 The automotive value chain will benefit from the lowered cash rate now at 2.25 per cent - an historic low, the decline in electricity charges due to the abolition of Carbon Tax and current lower petrol prices. The falling exchange rate currently at \$A at US77.56¢ has the impact of a double edged sword - having domestic and export benefits but import financial disadvantages particularly for the automotive sector.

4.4 In the near term, significant reports of relevance to the automotive value chain businesses will be released. These include the Final Report of the Competition Policy Review and the Review of the *Motor Vehicle Standards Act 1989*. The MTA Queensland made a submission to each of these Reviews and we await the release of these Reports and the Australian Government’s responses.

4.5 The automotive value chain operates in an economic environment distinguished by relatively high compliance costs in comparison to world standards. These are generated by a complex domestic regulatory regime, a burdensome workplace relations system, continuing skills shortages, and federal, state and local government charges cost drag.

4.6 Anecdotal market intelligence from members indicates that they expect some volatility in the future circumstances that the value chain will face. Generally the automotive value chain is experiencing demand conditions below the long term trend and this circumstance is likely to persist over the forward estimates. Consumer demand along the automotive value chain has been supported by contracting margins and some discounting but there is a limit for enterprises to continue to absorb costs and stimulate demand in this manner. In the medium term without fiscal support, prices along the value chain will need to adjust and consumer demand is likely to stagnate. For example:

- Farm machinery sales for the 2014 calendar year were grim on the back of failed winter crop due to drought;
- New motor vehicle sales for Queensland on a year to date basis, total new car sales numbered 223,519 down 9,620 or -4.1 per cent.
- Strong oligopolistic competition prevails to the detriment of independent operators in the fuel and convenience store markets generated by the actions of the supermarket majors with their programs of continuing fuel and food discounts regimes;

- Original Equipment Manufacturers' components sales have to contend with "grey competition" from cheaper overseas online purchases aided by the exchange rate of the Australian currency;
- Small to medium business such as the repair industry report slow but improving economic circumstances. Their abiding concerns are the costs imposed by the inflexible workplace relations system closely followed by statutory compliance costs;

4.7 Overall, the view within the Queensland automotive value chain is that business conditions are below the long term trend but it likely to take some time to achieve sustained recovery.

4.8 Labour conditions are improving but skills shortages remain an ongoing reality for the automotive value chain. The resource sector's downturn and the possibility that some of the skill labour release by the resources sector could be absorbed by the automotive value chain have not been observed.

### **Regulatory Reform**

4.9 The escalating cost of doing business is a concern for Members. We welcome the Government's focus on deregulation and the steps taken towards cutting \$1 billion in red and green tape each year to benefit business and not-for-profit organisations. With the Australian Government committed to regulatory reform, the potential exists for new sectoral efficiencies and productivity gains to be secured for the benefit of the economy.

### **Workplace relations system**

4.10 The MTA Queensland welcomes the Productivity Commission's inquiry into the workplace relations framework. Businesses in the automotive value chain require, consistent with the protection of the safety net, flexible workplace relations and a penalty rates regime that are mutually accommodating and reasonably protect worker's interest by allowing enterprises to be competitive and profitable.

4.11 Workplace reform that is fair to both the employer and employee is a priority. Flexible workplace arrangements, awards that engender confidence to employ are essential for productivity. The current *Fair Work Act* is an impediment to growth and a contributor to businesses relocating offshore. Business has the inclination to employ but without change the reservations to act on employment opportunities will remain.

4.12 The MTA Queensland will make a submission to the Productivity Commission's Inquiry into the workplace relations framework.

### **Training and Skills Shortages**

4.13 The labour force is a key economic indicator. The December 2014 Mid-Year Economic and Fiscal Outlook forecasts that the unemployment rate is expected to peak at 6½ per cent. It seems the workforce capacity shed by the mining and manufacturing sectors has not been picked up by the wider Australian economy.

4.14 As an employer, the entire automotive supply chain which includes manufacturing, retail, design etc. is important to the economy. As indicated in 2.1, the Queensland automotive value chain employs in excess of 73,000 persons.

4.15 Essential for our businesses is a trained workforce. The MTAIT delivers the full suite of automotive trade courses and now has in excess of 1700 apprentices and trainees with a graduation rate of more than 400 tradespersons for the automotive industry in each cycle. Over 1,000 workplaces are serviced in Queensland. However, over the last financial year we have seen a decrease by 20% in apprenticeship take up. This is a significant concern for future workforce requirements and further deepening of skills shortage.

4.16 The National Workplace Development Fund (NWDF) has our strong support. In the 2013-14 financial year through the NWDF over 600 trade's people were up skilled in various sectors of the industry. Under the NWDF, our MTAIT finalised several projects including parts interpreting, vehicle loss assessing and hybrid & battery electric vehicle technology. In addition, Diploma of Management and Structural Repair Skill Set projects for the collision repair Industry were also implemented. These courses have helped organisations identify future business requirements and workforce development needs through supporting training to existing and new workers.

4.17 An ongoing concern is that apprenticeship completion rates remain low. It is our experience that approximately 55% of apprentices do not complete their trade. This is a significant economic cost for the employer and the training entity in terms of time and resources invested. Additionally there is potential loss of skills to the industry. The development of more flexible training options in response to skill shortage issues is required. The greater use of school based apprenticeship and traineeship options is supported. We also request further support for mentoring and apprenticeship awareness campaigns to increase engagement in the automotive industry.

### **Taxes and Charges**

4.18 MTA Queensland acknowledges the fiscal disciplines that require revenue to cover recurrent expenditure including service delivery. The Association recommends that any increase in excise, duties, taxation, fees and charges be 'capped' to an increase not greater than the Consumer Price Index.

4.19 The Government, as part of the fiscal repair dismantled some tax concessions. These include

- Loss carry back provisions (with effect from 1 July 2013)
- Threshold for the small business instant asset write-off reduced from \$6,500 to \$1,000 and limited to assets that are first used or installed ready for use on or after 1 January 2014

4.20 It is our view that rescinding these tax concessions has had the propensity to increase compliance costs, impede capital investment, mitigate future growth and contract investment **returns**. In the context of taxation reform we recommend that the dismantling of the tax concessions should be reviewed. The MTA Queensland submits that the Australian Government should consider these concessions in the context of the Budget's small business jobs package.

4.21 The Luxury Car Tax (LCT) quantum and the LCT policy as a consequence of the Free Trade Agreements with South Korea, China and Japan and the pending demise of motor vehicle manufacturing in Australia are anachronisms. Unabashedly, the MTA Queensland's policy is for its abolition. We are not alone. The final 2008 Report of Review into Australia's Future Tax System recommended the abolition of the LCT.

4.22 The MTA Queensland acknowledges the Australian Government's Tax Reform White Paper to which we will make a submission. It will include the Associations suggestions that include the LCT, the Goods and Services Tax online threshold and tax concessions for the small business sector.

#### **National Injury Insurance Scheme (NIIS)**

4.23 The MTA Queensland is of the view that the NIIS must be introduced carefully and progressively taking into consideration the economy's capacity to finance the scheme. We acknowledge and accept that society has responsibilities to those who suffer catastrophic injuries as a consequence of motor vehicle accidents. It is our view that the best way to fund the NIIS is to have a productive and growing economy that is able to finance social security obligations from an equitable tax base.

#### **Infrastructure**

4.24 The sequence of drought, floods and cyclones have accelerated the physical depreciation of the national highway infrastructure. It is our experience that inefficient road infrastructure detrimentally impacts productivity and imposes unnecessary and avoidable costs through delays to logistics, damage to vehicles and are detrimental to safety.

4.25 Further productive infrastructure projects that can pay for itself over the longer term should be considered to increase productivity, growth and employment at a time when the economy is operating below capacity.

#### **Harmonisation of regulations**

4.26 As a general submission the MTA Queensland strongly urges the harmonisation of regulations of the automotive sector across the states and territories of the Commonwealth.

4.27 Through the Council of Australian Governments we support a consensus that an effective program to deregulate and to dismantle compliance regimes and costs that do not contribute to the protection of stakeholders. This should be a priority as an industry support for this sector.

### **5 Summary**

5.1 The automotive value chain operates in an economic environment with relatively high statutory compliance costs in comparison to world standards. MTA Queensland:

1. The MTA Queensland recognises the Australian Government's fiscal constraints as it prepares the 2015-16 Budget.

2. The structural reform agenda commenced in the 2014-15 Budget should continue in the coming financial year to enable in the medium term, a budget surplus and pay down debt.
3. The policy directions announced in the Prime Minister's Tony Abbott's National Press Club address are supported - the cessation of the proposed paid parental leave (PPL) scheme and its replacement with a families package focussed on childcare; and a small business jobs package that has a small business company tax cut of at least 1.5 per cent effective from 1 July as an element.
4. That the families package should be funded from consolidated revenue and not the proposed 1.5 per cent levy on larger companies.
5. A set of responsible forward estimates to provide a stimulus to allow for a transition from the resources reliant economy to a more general economy that can sustain growth, productivity and employment.
6. Any increase in excise, duties, taxation, fees and charges be "capped" to an increase not greater than the Consumer Price Index.
7. Consideration should be given to the implementation of further productive infrastructure programmes to engender demand and productivity.
8. Strongly support the Australian Government's regulatory reform agenda.
9. Support the Australian Government's Productivity Commission Inquiry into the workplace relations framework.
10. Support the continuation of the National Workplace Development Fund.
11. The Australian Government should include small business tax concessions dismantled as part of its fiscal repair in the small business jobs package proposed for the 2015-15 Budget. These include:
  - Loss carry back provisions (with effect from 1 July 2013)
  - Threshold for the small business instant asset write-off reduced from \$6,500 to \$1,000 and limited to assets that are first used or installed ready for use on or after 1 January 2014
12. The NIIS be recognised as a social security obligation and be funded from an equitable tax base.
13. Supports the harmonisation of regulations of the automotive sector across the states and territories of the Commonwealth

Thank you for your consideration.

Yours sincerely



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