

# **2018 Victorian State Election: Priorities for Retailers**

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Retailers  
Association

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# The ARA's 2018 Victorian State Election Priorities

## About the ARA:

The Australian Retailers Association (ARA) is the retail industry's peak representative body representing Australia's \$310 billion sector, which employs more than 1.2 million people. The ARA works to ensure retail success by informing, protecting, advocating, educating and saving money for its 7,500 independent and national retail members, which represent in excess of 50,000 shopfronts throughout Australia. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

Members of the ARA include Australia's most trusted retailers, from the country's largest department stores and supermarkets, to specialty retail, electronics, food and convenience chains, to mum-and-dad operators.

## Executive Summary:

Victoria has long been heralded as Australia's 'retail capital,' and on current numbers, this moniker continues to ring true. Moreover, the retail industry is often regarded as a barometer for the broader economy. If consumers are spending and retail is doing well, then the economy is in good shape; vis-à-vis, when spending and confidence in the economy are down, retailers suffer.

Adages aside, the retail industry makes a vital economic contribution to Victoria's economy. Retail is where many begin their working lives, in casual roles after school, in temporary roles over Christmas while studying, or as a step towards a lifelong career in the industry. So too, does retail inject an important social and cultural component to the Victorian community, encouraging and supporting investment in businesses and services in local surrounds, while stimulating visitor and tourist spending in towns and cities across the State.

Numbers don't lie, so-to-speak, and in this sense, retail's importance to Victoria should not be underestimated. Since the previous election, the Victorian retail



industry has grown to represent a \$62.5 billion contribution, allowing retailers to employ more 16,500 more Victorians in May 2018 than in May of 2014<sup>12</sup>. Victoria's economy itself has strengthened over the last four years, with a 23% jump in the number of employed Victorians, and economic growth averaging close to 3% each year<sup>3</sup>. Responsible economic management by successive Governments has placed Victoria in an enviable position.

However, while the positives are abundant, challenges remain, and the next Victorian Government will necessarily need to deploy a suite of policies which continue to provide the conditions to improve our already outstanding liveability and that businesses need to employ Victorians.

The ARA has set out a range of priorities for the next State Government to build on past successes and continue to grow the economy, for the benefit of all, specifically retail.

## 1: Economy and Taxation:

Victoria's economy has been booming of late, due to a significant achievement of the prudent economic management of successive State Governments, coupled with the flow-on effects of the property boom, population and employment growth. Successive Budget Surpluses have placed Victoria's economy in a fortuitous position. During the next parliamentary term, the time will be right for the next State Government to begin consideration about how best to provide for the needs of Victorians, and the businesses that employ them, in the future.

### 1.1 Review and Reform the Revenue Stream:

A changing economy, both globally and domestically, as well as a changing society, both in the way that we live and work, means that governments can no longer rely on the complex revenue streams and tax structures from the past. Tax revenue should be adequate to meet all the reasonable expenditure needs of governments at all levels, consistent with the exercise of prudent economic management. The tax system should be such that all taxpayers feel confident and satisfied in complying with it. Complexity does not encourage compliance, nor does it stimulate confidence, growth or job creation.

The ARA would like to see a commitment for a root-and-branch review of the state tax and revenue system, undertaken with a view to abolishing inefficient taxes along with reducing the overall tax burden to business and the productive economy.

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<sup>1</sup> ABS 2018, Cat. No. 6291.0, *Labour Force, Australia, Detailed, Quarterly, May 2018*, June 2018.

<sup>2</sup> ABS 2018, Cat. No. 8501.0, *Retail Trade, Australia, Sep 2018*, November 2018.

<sup>3</sup> Parliament of Victoria 2018, Parliamentary Library & Information Service, *Victorian Economic Snapshot*, February 2018.



The ARA would also like to see the next Victorian Government take the lead on driving taxation reform through the Council of Australian Governments (COAG). An integrated package of reforms across all significant State and Commonwealth tax and revenue structures covering consumption, income, assets, offshoring and emerging industries will drive sustainable public management in the future.

Innovation and investment in both new, and pre-existing businesses occurs in economies which have well-structured taxation systems and encourages strong competition.

## 1.2 Payroll Tax:

The State's recent golden run of economic growth has been supported and spurred on by the businesses which employ, train and develop Victorians. However, a significant handbrake remains in the form of payroll tax, which disincentivises SMEs from growing and hiring more workers, crueing future opportunities and disadvantaging the overall economy. Having been introduced as a revenue measure during wartimes, payroll tax is no longer fit-for-purpose, and ultimately should be repealed.



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The ARA recommends that the next State Government should help retailers maintain and grow employment by reducing the business tax burden. The Victorian retail industry is a vital component of the State's economy, employing 325,000 Victorians and contributing \$62.5 billion in annual revenue.<sup>56</sup> However, with Victoria's payroll tax threshold of \$650,000 ranking as the worst in Australia, the ARA believes the next State Government has an immediate opportunity to grow the industry even further by

<sup>4</sup> ABS 2018, Cat. No. 6291.0, *Labour Force, Australia, Detailed, Quarterly, May 2018*, June 2018.

<sup>5</sup> ABS 2018, Cat. No. 6291.0, *Labour Force, Australia, Detailed, Quarterly, May 2018*, June 2018.

<sup>6</sup> ABS 2018, Cat. No. 8501.0, *Retail Trade, Australia, Sep 2018*, November 2018.



increasing Victoria's threshold to \$800,000<sup>7</sup>. This should be done as a preliminary measure, with a review into abolishing payroll tax to follow.

## 2: Investing in People:

The ARA is proud to represent an industry which makes a major contribution to Victoria's economy. The retail industry is Australia's largest private-sector employer, with over 340,000 Victorians directly employed in the retail industry.<sup>8</sup>

Since the last state election, retail industry employment in Victoria has grown by 5.1%, to represent 10.3% of all employed persons in Victoria today. This includes close to 8% of all full-time workers in the State. The retail industry also supports employment in a range of other vital industries, including agriculture, wholesaling, logistics, transport, tourism and hospitality.<sup>9</sup>

### 2.1 Skills:

Changes to the Victorian Vocational Education Training (VET) system by successive Governments, while necessary to address quality issues, have caused a negative impact for retailers and the skilling of their employees. While VET investment is currently strong, the retail industry continues to feel the pinch from funding changes for retail qualifications, which includes business management, succession planning, retail buying and future industry leadership, among others.



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<sup>7</sup> Australian Revenue Offices 2018, *Payroll Tax Rates and Thresholds* site, <<https://www.payrolltax.gov.au/harmonisation/payroll-tax-rates-and-thresholds>>.

<sup>8</sup> ABS 2018, Cat. No. 6291.0, *Labour Force, Australia, Detailed, Quarterly, May 2018*, June 2018.

<sup>9</sup> Ibid.

<sup>10</sup> NCVET 2018, *Historical time series of apprenticeships and traineeships in Australia, from 1963 to 2017*, December 2017.



While the ARA agrees in-part with more stringent assessments of training providers to promote better quality in training, as well as targeted funding for priority sectors, retail has been left out. The impact on the industry has seen a rise in skills shortages, with many Victorian and national retailers losing staff to higher-paying roles in other industries.

Across the most recent period of Government, there has been a 36% decline in ‘in-training’ rates in Victoria for retail-related qualifications. This represents a fall from 4,700 students ‘in-training’ at the end of the 2013/2014 financial year to just 3,000 at the end of 2016/2017.<sup>11</sup>

Retailers and training partners need certainty and support to be able to develop important technical and non-technical skills, to improve productivity and increase employment. The ARA is calling for the next State Government to acknowledge retail as a priority industry and improve the viability of Certificate II and III level training. Particular attention should also be paid to the development of important skilling and retraining requirements such as business transformation, succession planning and structural change.

## 3: Transport, Planning and Regulation:

### 3.1 Keep Victoria Mobile:

Successive State Governments have invested heavily in a significant number of catch-up projects to ensure Victorians can continue get to where they need to on and into the future. Businesses, local Victorians, and visitors to the State rely heavily on a dependable road, sea, air and rail network to keep things moving. Not only does this mean getting to-and-from work or school, but also providing crucial freight networks, improving overall liveability and encouraging tourism.

The ARA calls on the next State Government to continue to prioritise the development of an integrated network of transport options. This should include projects to decrease congestion and reduce lost time and productivity for the Victorian economy, removals of bottlenecks in key arterial thoroughfares, and the construction of missing links in the Victorian road network.

Additionally, the ARA is fully supportive of the construction of the Melbourne CBD-Tullamarine Airport rail line, which is long overdue. This project will enable increased accessibility for visitors to the State, activate development along the rail corridor, and reduce congestion on associated roads. More broadly, the ARA is advocating for a continued focus on the state’s rail network, including increased funding to secure

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<sup>11</sup> NCVER 2018, *Historical time series of apprenticeships and traineeships in Australia, from 1963 to 2017*, December 2017.

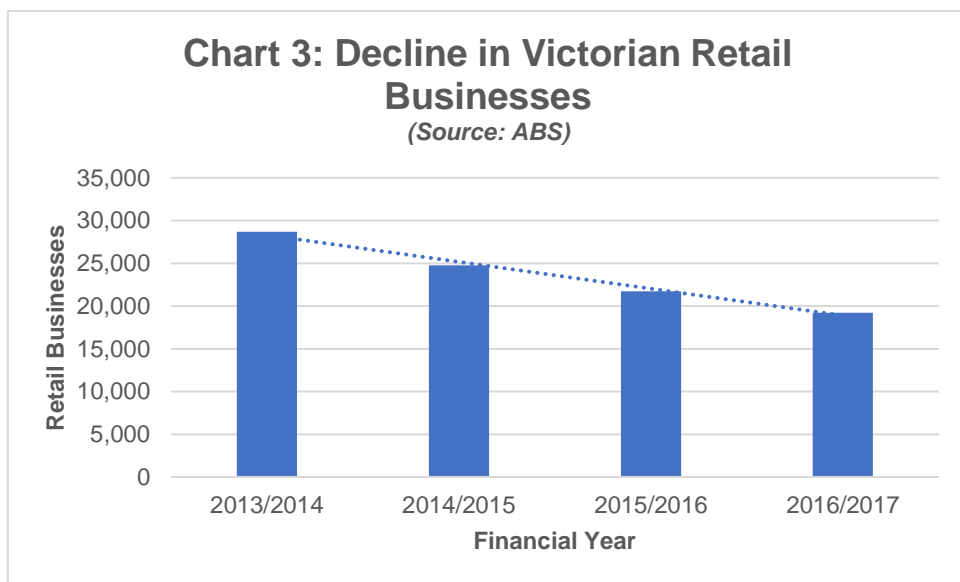


upgrades to ageing infrastructure on the Metro train network, and an overhaul of the regional rail network to support economic development in rural Victoria.

### 3.2 Retail Tenancy:

While Victoria is regarded as the retail capital of Australia, not all retailers are sharing in the success of local industry or the State's economic boom. Retailers conducting business in rented premises have little long-term certainty, significant costs associated with set-up, high rents and disproportionate negotiating power. While retailers of all sizes face challenges in securing fair and cost-effective tenancies, these challenges are particularly prohibitive for SMEs.

This is illustrated by the dramatic 33% fall in the number of individual Victorian retail businesses over the last four years. ABS data shows individual retail businesses based in Victoria decreased from 28,674 at the end of the 2013/2014 financial year to 19,228 at the end of 2016/2017.<sup>12</sup>



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Moreover, in a competitive market, lease renewal is heavily leveraged at the point of re-negotiation, leading to relocation or even failure for many vendors.

- For example, in addition to the base rental cost, a significant additional rental expenditure is categorised as 'turnover rent,' whereby, built into a rental agreement, the respective landlord is entitled to a percentage of takings in addition to the minimum rent payable.

The ARA compels the next State Government to review and amend retail tenancy legislation to provide for a fairer and more transparent operating environment for retailers. This will give SME retailers the security they need to grow, increase employment, and contribute to the local economy.

<sup>12</sup> ABS 2018, Cat. No. 8165.0 – *Counts of Australian Businesses – February 2018.*

<sup>13</sup> ABS 2018, Cat. No. 8165.0 – *Counts of Australian Businesses – February 2018.*



The ARA seeks to require that a sitting tenant must be offered both first-right of refusal to release retail premises prior to a landlord executing a lease for another tenant. This would compel landlords to meet the real market value for the demised premises, while preventing coercion and misrepresentation regarding alternative tenants. The ARA also believe this will create an environment conducive to bargaining in good faith, with fair disclosure and transparent undertakings.

- This mechanism also provides a solution to the problem experienced by a retailer where a sitting tenant effectively gives over a large percentage of goodwill to the landlord (via increased rent) as a defence to the threat that a third-party will take over the lease at a higher rent without having to purchase the goodwill of the existing business.

The 'turnover rent' provisions by landlords determining rent increases which are geared within what a retailer 'can afford to pay' rather than a common and transparent market rate mechanism thanks to accrued data provided under 'turnover rent clauses' needs removing.

- The structure of such a term is usually based around financial requirements within the lease to pay a percentage of turnover rent as an additional rent component. Almost without fail, this financial requirement to pay turnover rent is set at such an unrealistic level of turnover which would most likely never be achievable by the tenant.

The ARA would like to see the next State Government adopt the ARA's Code of Practice for the Reporting of Sales and Occupancy Costs, which will improve the power imbalance between retailers and landlords. This Code provides for retailers, where they are required to report sales figures to their landlords, to request benchmarking information, a key transparency measure.

The ARA also calls on the next State Government to move forward with changes to market reviews as an outcome of the most recent review to Retail Tenancy legislation. This will ensure retailers are not automatically bound to accepting market rent reviews.

### **3.3 Reform Planning and Regulation:**

The ARA supports creating a more competitive, efficient and cost-effective planning environment which allows retail development to occur. The ARA also notes that recent State Governments have implemented changes to planning and zoning laws and regulations. This work should continue, and the next State Government should operate with an environment of continuous improvement in-mind. This will place Victorian retailers, and business more generally, in the best position to maximise future opportunities.

Onerous development and planning requirements deter business establishment and expansion and constrains prosperity. While tenancy costs are driving retailers out of the marketplace, the mire of planning and zoning regulations act as a further barrier to viable alternatives. Moves to improve planning and zoning should take into consideration the social and economic impacts of an over-reliance on city centres





The ARA supports the prioritisation of rejuvenation projects in existing retail areas outside of city centres. Victoria's suburbs, smaller cities and rural towns should be able to share in the economic opportunities that the rejuvenation of local shopping strips can provide.

The ARA would also like to see a legislative review for planning and zoning, potentially resulting in abolition, merging or bundling of regulatory requirements. This could include licensing and permits at Local Government level to reduce complexity and costs.

With improving technology, Local Government could undertake large parts of the approval processes electronically using methods such as process application interfaces. We believe digitalisation is a crucial reform to be swiftly adopted across all levels of government.

This could also assist with unbinding the significant imposition created by the outdated 'office hours' handbrake, which poses limitations on businesses engaged in an increasingly 24/7 economy. Utilising technological solutions to manage permits, licensing and planning applications will increase choice and remove delays, contributing to efficiencies across the board.

Both State and Local Governments can assist with business innovation by improving access to information regarding regulation, taxation and government services, especially electronically.

## **4: Future-Building Initiatives for Retailers:**

### **4.1 E-Quipping SMEs for Tomorrow:**

Debates about the pace of technological disruption and its associated positives and negatives abound. However, the ARA believes that the next State Government should focus on practical, simple priorities, to assist businesses with adapting to the modern economy.

From the retail perspective, younger demographics increasingly prefer online shopping and have high expectations for convenience and interconnectivity. SME retailers face a lack of visibility in the online space, yet face further challenges adopting innovative retail methods, strategies and technologies, which are costly to develop and implement. Indeed, cost pressures are one of the greatest hurdles to any business attempting to modernise their technology to compete in the digital age.

Retailers require access to reliable, easy to set up and high-quality communications technology at low-cost. The ARA believes the next State Government should establish a new funding scheme to assist SMEs in priority industries, such as retail, to assist with digital transformation.



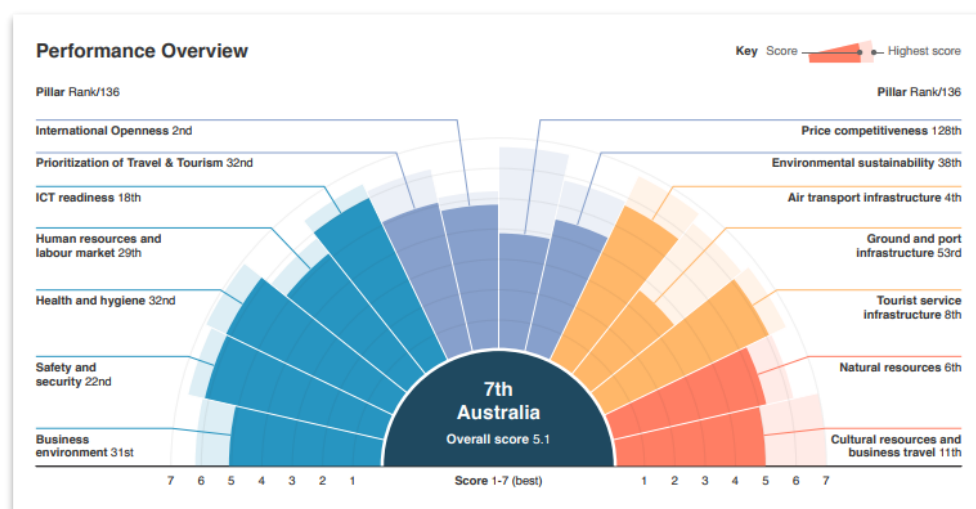
The ARA calls on the next State Government to assist businesses to create e-commerce platforms and help to develop IT and marketing expertise to facilitate competition in the modern economy.

#### 4.2 Expanding the Visitor Economy and Promoting Retail Tourism:

Victoria's tourism industry is thriving and provides important cultural, economic and social benefits to the state economy. With a 12% increase in international visitors during the 2017/2018 financial year, and a 21% increase in visitor spending to \$647 million, the next State Government has a golden opportunity to leverage Victoria's tourism success.<sup>14</sup>

Retail shopping is an important component of the overall tourism experience in Victoria, and Australia more broadly. In recent years, the ARA has been strong in its support for enhancements to tourism shopping arrangements in Australia. The ARA's analysis of the most recent international visitor survey shows that shopping comprises close to 10% of international visitor spending in Australia. In Victoria's case, this would represent a \$64.7 million contribution to the State from international visitor spending on retail alone.<sup>15</sup>

Australia is world-renowned as an international tourist destination; this is reflected in the World Economic Forum's *Travel and Tourism Competitiveness Index*<sup>16</sup>, where Australia ranks seventh globally. However, on price competitiveness, Australia ranks as the 128<sup>th</sup> country out of 136 countries assessed.



The ARA is looking to the next State Government to prioritise retail during its next term as an important activator for tourism and visitor spending. The development of a Retail Tourism Strategy, as well as associated support through targeted program

<sup>14</sup> Tourism Research Australia 2018, *International Visitors in Australia – Year ending June 2018*

<sup>15</sup> Ibid

<sup>16</sup> World Economic Forum 2017, *Travel and Tourism Competitiveness Index*.



funding, will assist in positioning local retailers in the best position to take advantage of Victoria's growing attractiveness as a tourism destination.

This strategy should prioritise support for SME retailers in tourism hotspots, helping to drive employment and investment in Victoria's regional communities, while supporting the growth of locally produced products.

The ARA would also like to see the next State Government use this strategy to advocate through COAG for a reform to the GST Tourism Refund Scheme (TRS). Australia currently lags many other countries around the world, where private providers operate a more efficient TRS and actively promote the service as a key offering to international visitors. This initiative represents a tangible step towards increasing the yield by international visitors whilst in Victoria.

#### **4.3 A Population Strategy to Improve Confidence:**

There is no argument that Victoria's has benefited from the population boom in recent years. According to ABS figures, Victoria's population has grown by more than 500,000 over the most recent term of Government.<sup>17</sup> However, the marked increases in population is posing significant challenges for future State Governments to overcome, including increases to the cost of living, strained infrastructure and transport, planning and development issues, among others. Further, Victoria's regions are losing out on the benefits, with a large proportion of this increase centred in-and-around Melbourne, which is groaning under the strain.

The next State Government should prioritise the development of a Population Strategy to improve confidence and create a plan for the future. This plan should be developed with a view to sharing the benefits across the entire State, with actionable policies to grow Victoria's regions and ensure their productivity, liveability and economic activity. This will assist successive State and Local Governments in providing the vital transport, infrastructure, community and business services that will be necessary to prepare for further growth.

## **Summary:**

The adoption of the ARA's policy priorities will assist the next State Government in ensuring the continuation of the retail industry's significant contribution to the Victorian Economy in the future. This statement has also outlined a range of policy initiatives which will boost productivity, increase economic, employment and cultural opportunity, and support the industries which continue to link in to and depend on the strength of retail in Victoria.

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<sup>17</sup> ABS 2018, Cat. No. 3101.0, *Australian Demographic Statistics, Mar 2018*, September 2018.



The ARA is proud to represent Victoria's vibrant retail sector, and pledges to work with the next State Government to achieve success for the industry, as well as the broader economy.

For more information on the ARA's policies, please contact Joshua Walker, ARA Policy and Regulatory Affairs Advisor, at [josh.walker@retail.org.au](mailto:josh.walker@retail.org.au), or Russell Zimmerman, ARA Executive Director, at [russell.zimmerman@retail.org.au](mailto:russell.zimmerman@retail.org.au).



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