Inquiry into Microeconomic Reform in Western Australia

Discussion Paper

8 November 2013

Economic Regulation Authority
WESTERN AUSTRALIA

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Economic Regulation Authority
Perth, Western Australia
Phone: (08) 6557 7900

Foreword

The Treasurer of the State of Western Australia has requested that the Economic Regulation Authority (**ERA**) undertake an Inquiry into Microeconomic Reform in Western Australia (**Inquiry**).

In accordance with the Inquiry's Terms of Reference, the ERA will provide recommendations on the most advantageous package of microeconomic reform measures that the Western Australian Government could implement to improve the efficiency and performance of the Western Australian economy.

The ERA published an Issues Paper on 9 August 2013 seeking public comment on the issues and potential reforms that should be discussed in this Inquiry. This Discussion Paper draws on the comments received in response to the Issues Paper. For more background information, please refer to the Issues Paper, available on the ERA's website.

The purpose of this Discussion Paper is to outline the potential reforms to be considered in the Inquiry. Responses on matters raised in this Discussion Paper, and any other matter that the ERA should consider in this Inquiry, should be submitted by 4:00 pm (WST) on Friday, 13 December 2013, preferably in electronic form, and addressed to:

Economic Regulation Authority

Inquiry into Microeconomic Reform in Western Australia

Email address: publicsubmissions@erawa.com.au

Postal address: PO Box 8469, PERTH BC WA 6849

Facsimile: (08) 6557 7999

Section 1 of this Discussion Paper provides further information about the process for making a response to the ERA. Interested parties and stakeholders will have a further opportunity to make submissions following the release of the ERA's Draft Report.

The Final Report for this Inquiry is scheduled to be delivered to the Treasurer on 30 June 2014, following which the Treasurer will have 28 days to table the Report in Parliament.

I encourage interested parties to consider the Terms of Reference and matters raised in the Discussion Paper and prepare either a full formal submission, or provide the ERA with a brief email containing your feedback.

LYNDON ROWE
CHAIR

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Summary of Questions for Interested Parties

Questions for interested parties are provided at the end of each section throughout this Discussion Paper.

The full list of questions has also been provided below, to assist you in organising your submission, and selecting the issues you wish to address.

Government Ownership

1. Can you identify any government assets that should not remain government operated? If so, please provide this justification.

Public Utilities

1. Are there any significant benefits to the current system, where water supply and demand responsibilities are dispersed between the Water Corporation, the Department of Water, and Government Ministers? Could these functions be better managed?
2. What are the costs and benefits of implementing water restrictions? Are there alternative approaches to maintaining security of water supply that may be more efficient or effective?
3. Are you aware of any other opportunities for reform of the State's urban water sector? If so, what are the likely costs and benefits of this reform?

General Government Infrastructure

State Infrastructure Planning

1. Has the State's process for project prioritisation resulted in the optimal provision of infrastructure? In particular:

    a) Is the Strategic Asset Management Framework (**SAMF**) a robust system, and does it effectively ensure that the State's infrastructure priorities are well developed and implemented efficiently?

        i. If not, how can the process be reformed, and what are the costs and benefits of this approach?

    b) How might State Government investment planning strategy in Western Australia be improved?

2. Is State infrastructure planning consistent with national initiatives, and is Western Australia maximising the amount of funding available through Commonwealth sources via participation in the various national initiatives?

3. Should Western Australia establish a single State infrastructure fund similar to Infrastructure Australia, (such as recently recommended in Queensland by the Independent Commission of Audit into Queensland Finances) to consolidate State infrastructure funding and assessment?

4. What is the best system to plan and provide infrastructure to regional and remote areas of the State?

Funding and Utilisation of Infrastructure

1. Are sufficient opportunities being identified for private sector participation and involvement in the provision of infrastructure? If not, what other opportunities could be provided and what are the costs and benefits associated with each approach?

2. In what circumstances should infrastructure costs be recovered through the application of user charges?

    a) If so, what are the costs and benefits of employing this approach?

3. In which circumstances would implementing time-of-use pricing for Government assets be appropriate in order to enable greater use of infrastructure and reduce peak-period costs? This might include:

    - a peak-period road user charge for major entry points into the city;

    - a uniform road user charge for major entry points into the city that is levied on all users regardless of the time of day;

    - off-peak leasing of Government assets to the private sector, such as sharing medical facilities or renting empty classrooms to private educators or day-care facilities.

Taxation and Government Revenue in Western Australia

1. How might broad based taxes be implemented in Western Australia so as to lead to greater efficiency than current narrower taxes?
2. What inefficiencies or other issues arise from the current system of transfer duty on residential conveyances?
3. Would broadening the land tax in order to offset a decrease in transfer duty rates result in a more efficient tax system in Western Australia?
4. Would broadening the payroll tax in order to decrease the rates of transfer duty result in a more efficient and easier to implement tax system in Western Australia?

Reducing the Cost of Complying with Red Tape

1. Which outstanding recommendations of the 2009 *Reducing the Burden* report are the most important ones yet to be implemented?
2. What other major red tape problems not addressed in the *Reducing the Burden* report need to be addressed?
3. What process improvements could be made to ensure that Government red tape is kept to a minimum?

Product Markets in Western Australia

1. Is there a role for the Potato Marketing Board to continue regulating the growing and marketing of potatoes, and if so, what is it?
    a) What factors should be taken into account when evaluating the costs and benefits associated with the operation of the Potato Marketing Board?
2. Should the State's current Liquor Licensing framework be maintained?
    a) What are the costs and benefits of the current system and of any alternatives?
3. Does the existing framework for licensing or registering tradespeople materially restrict market supply? If so:
    a) For which trades does this occur?
    b) How are the numbers restricted?
    c) Do you have any proposals to improve the existing framework?

d) What are the costs and benefits of your proposal?

4. Would there be any benefits in deregulating the State's taxi market? What are the costs and benefits of the current system compared to a deregulated taxi market?

5. Would there be any benefits in further deregulating the State's retail-trading legislation? If so, what are the costs and benefits of moving to a more deregulated environment?

6. Should the State continue with the current Domestic Gas Reservation Policy? What are the costs and benefits of the current policy and any alternatives?

Supplementary Issues

1. Are you aware of any other economically compelling reforms that could be considered by the ERA in the Draft Report? If so, please detail the nature of the reform and provide a robust analysis of its costs and benefits.

1 Introduction

1.1 Terms of Reference

The Treasurer of Western Australia has given written notice to the ERA to undertake an Inquiry into Microeconomic Reform in Western Australia.[1]

The Terms of Reference for the Inquiry require the ERA to develop the most advantageous package of microeconomic reform measures that the Western Australian Government could implement to improve the efficiency and performance of the Western Australian economy, with a focus on areas of reform that have the potential to achieve the following outcomes:

- improved productivity and flexibility of the Western Australian economy;
- increased choice for consumers and business, leading to net economic benefits to Western Australia;
- increased opportunities for Western Australian businesses to effectively compete for national/international market share; and
- removal or streamlining of unnecessary regulation.

In developing its recommendations, the ERA is required to:

- assess the current level of efficiency of Western Australia's economy, including a comparison with other relevant national and international economies;
- identify those areas in the economy where reform could enhance their contribution to the overall Western Australian economy;
- identify options for improving the economic efficiency of the key areas identified above;
- prioritise key areas of reform based upon their potential impact on overall economic efficiency and future growth; and
- recommend a small number of specific key reforms or sectors that require further investigation by the ERA and/or policy development by the Government.

1.2 Public Consultation

In undertaking this inquiry and developing its recommendations, the ERA is seeking to consult extensively with the public.

1.2.1 Response to Issues Paper

The ERA released an Issues Paper on 9 August 2013 seeking broad public feedback on issues relevant to microeconomic reform in Western Australia, and was pleased to receive 57 submissions in response.[2] The submissions provided feedback from a broad

[1] For the original Terms of Reference please see Appendix A.

[2] Where permission has been granted by the author, the submissions are available on the ERA's website.

cross-section of the Western Australian community, and the ERA thanks everyone who chose to participate in the process.

The topics raised in the feedback were wide-ranging and assisted the ERA in better understanding the issues faced by various industries and sectors of the Western Australian community. Each submission was reviewed and discussed by the ERA, and whilst the ERA has necessarily limited the topics to be considered by the present Inquiry, it recognises that many of the other points raised in the submissions are likely to be of significance to Western Australians.

A full list of parties who provided the ERA with a public submission in response to the Issues Paper is given in Appendix E – List of Submitters, along with information on the main topics covered by each submission. These submissions are also available in full on the ERA's website, where they may serve to inform public debate on the issues raised.

Additionally, Appendix C, provides an overview of a number of particularly large or complex areas that, while not included within the scope of the present Inquiry, may benefit from examination in the future.

1.2.2 Preparing a Submission

You are invited to provide a submission on matters of relevance to the Terms of Reference and to the issues raised in this Discussion Paper. Submissions are due by 4:00 pm (WST) on Friday, 13 December 2013. All feedback received in response to this Discussion Paper will be considered, and will assist the ERA in identifying and evaluating the reforms that will be recommended in the ERA's upcoming Draft Report.

This Discussion Paper is intended to assist you in preparing your response. It contains information on the submission process, and on the ERA's intended approach to the Inquiry. It also provides further detail on a number of specific issues raised in response to the Issues Paper, both by the public[3], and by various Government Departments[4] and seeks more detailed feedback in relation to these issues.

Chapters 2 to 6 explain the background and purpose of this Inquiry and the broad approach the ERA intends to take in preparing its report to Government. These chapters will provide you with additional context that may assist you in responding to the questions in the chapters that follow.

Chapters 7 to 10 outline the specific areas of reform on which the ERA is seeking feedback, with a list of questions being provided in each chapter to assist you in structuring your response.

1.2.3 Next Steps

After reviewing the responses received to this Discussion Paper, the ERA will publish a Draft Report on its website, and will invite further public submissions. These submissions will be considered in the preparation of the ERA's Final Report, which will be presented to the Treasurer by 30 June 2014. The Treasurer will then have 28 days to table the Final Report in Parliament.

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[3] This refers to any individuals, businesses, organisations or associations that provided a submission to the ERA as a response to the ERA's Issues Paper, published on 9 August 2013.

[4] The ERA has met with several Government Departments to discuss potential microeconomic reforms that the Departments consider would be beneficial within their respective fields.

In accordance with section 45 of the *Economic Regulation Authority Act 2003*, the ERA will act through the Chair and members in conducting this Inquiry.

1.3 How to Make a Response

Your response may be provided in written or electronic form and addressed to:

> Inquiry into Microeconomic Reform in Western Australia
> Economic Regulation Authority
> PO Box 8469
> Perth Business Centre
> PERTH WA 6849
> Email: publicsubmissions@erawa.com.au
> Fax: (08) 6557 7999

Responses must be received by 4:00 pm (WST) on Friday, 13 December 2013.

Responses will be placed on the ERA's website unless confidentiality is claimed. The response, or parts of the response in relation to which confidentiality is claimed, should be clearly marked. Any claim of confidentiality will be dealt with in accordance with Section 55 of the *Economic Regulation Authority Act (2003)*.

2 Background

The ERA's Issues Paper discussed a number of subjects that provided a broad background to this Discussion Paper, including:

- the aims, benefits, costs and challenges of microeconomic reform;
- the history of microeconomic reform in Australia;
- the role and function of the Western Australian State Government, such as it applies to the implementation of various reforms; and
- an overview of the Western Australian economy.

You may find that the Issues Paper provides further context that will be useful in preparing your submission.

3 Productivity in Australia and Western Australia

The Terms of Reference for this Inquiry specifically require the ERA to:

- identify areas of reform that have the potential to improve the productivity and flexibility of the Western Australian economy; and

- assess the current level of efficiency of Western Australia's economy, including a comparison with other relevant national and international economies.

The productivity of the economy is important, as it is a determinant of long-term economic growth and hence income growth.

This chapter provides background on the productivity of Western Australia and Australia and aims to illustrate how microeconomic reform can enhance the economy's productivity and how this will benefit individuals.

3.1 What is Productivity?

Productivity measures how effectively an economy uses resources (labour and capital) in order to deliver the mix of goods and services desired by its citizens. It provides information about how efficiently an economy is operating.

An increase in productivity represents an increase in output created from a fixed set of inputs and therefore an increase in income and wealth. The increase in income allows individuals to purchase more goods and services. With higher income, all else remaining constant, the standard of living[5] of individuals increases.

[5] *Standard of living* refers to the overall level of material comfort, as measured by the goods and services available to an individual, group, or nation.

Types of Productivity Explained

Productivity can be demonstrated with a simple example.

Imagine you need dirt excavated from your back yard. There are several ways in which this can be achieved. In this scenario, 'labour' is the number of people you hire to perform the work, 'capital' is the equipment you provide to those people (for example, shovels or mechanical diggers), and 'output' is the volume of dirt they are able to move per hour.

Scenario	Labour	Capital	Output
Scenario 1	2 People	1 Shovel	$10m^3$ per hour
Scenario 2	2 People	1 Shovel	$12.5m^3$ per hour
Scenario 3	2 People	1 Large Shovel	$15m^3$ per hour
Scenario 4	2 People	2 Shovels	$17.5m^3$ per hour
Scenario 5	2 People	Digger	$50m^3$ per hour

In Scenario 1, two people with one shovel can dig $10m^3$ per hour.

Scenario 2 has the same number of inputs as the first scenario. However, in this scenario, the workers have been trained to work more productively, by learning a more efficient shovelling technique, allowing them to dig an extra $2.5m^3$ of dirt per hour. The increase in output is the result of an increase in **labour productivity**.

In Scenario 3, the two people have a new shovel that allows them to shovel faster ($15m^3$ per hour) for no extra effort. The larger shovel allows the workers to remove more dirt per dig than the smaller shovel. This represents an increase in **capital productivity**.

In Scenario 4, the two people are given one shovel each, allowing them to dig $17.5m^3$ per hour. The increase in output is a result of providing the labour with more capital. This is known as **capital deepening.**

In Scenario 5, two people are hired and are provided with a mechanical digger; using this improved technology, they can dig $50m^3$ per hour. Using the digger is more productive than using the shovels. In order to operate the digger, the labour must be trained to use the new technology. The training represents an increase in **labour productivity** because the labour is now more skilled, and is able to operate the digger. The upgrade from using shovels to using the digger increases **capital productivity**. Combined, this improvement illustrates the concept of **multifactor productivity,** where the respective contribution of labour and capital is unclear. [6]

It is difficult to assess the extent to which multifactor productivity has changed as a result of the development of the digger because Scenario 5 represents a fundamental shift in the way that the digging is conducted. If the time and cost savings[7] are greater than the additional cost of using a digger,[8] then Scenario 5 represents an increase in multifactor productivity. In reality, the example outlined above is unlikely to benefit from the use of a digger because the cost of hiring a digger is large relative to the size of the job. However, the prevalence of diggers on worksites across the State suggests that the invention of the digger has resulted in a material increase in multifactor productivity, over the use of manual labour, in many situations.

Labour productivity and multifactor productivity are discussed further in Chapter 3.4.

3.2 Gains in Productivity

The Productivity Commission states that the rationale behind microeconomic reform is to raise the living standards of the community by increasing productivity growth, which is a major determinant of people's incomes over the long term.[9] The other major variable that affects household income is the 'terms of trade'[10]. However, unlike productivity, the terms of trade is largely beyond the influence of government policy. This is why economic reform focuses on influencing productivity.

The benefits of productivity at an economy-wide level can be observed in two forms:

- producing more with less occurs when the production of various goods and services increase relative to the amount of inputs used to produce them. This will lead to a combination of greater income for producers and lower prices for consumers, with the exact distribution of gains depending on the structure of each particular industry; and

- better utilisation of resources occurs when productivity growth allows resources (capital and/or labour) to be released from those industries that can now produce the desired level of output with fewer inputs. This frees up resources to be used for additional leisure or production elsewhere, expanding production choices and increasing the standard of living.

[7] Derived from completing the job quicker and employing workers for less time.

[8] That is the cost of purchasing/hiring a digger and training the workers to use it and any associated costs.

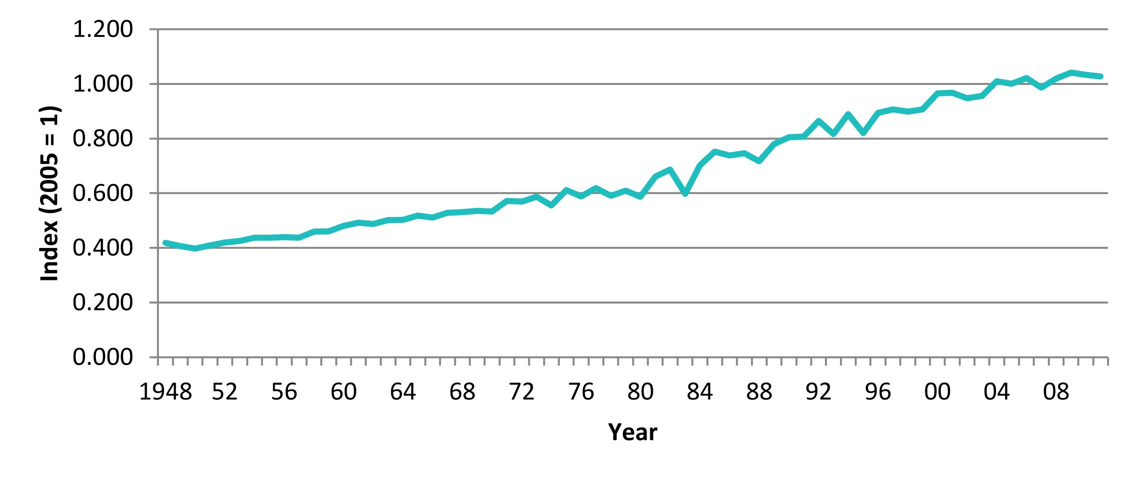
[9] Productivity Commission, 1999, *Microeconomic Reforms and Australian Productivity: Exploring the Links:* Commission Research Paper, Volume 1, pp.III.

[10] '*Terms of trade'* is defined as the ratio of export prices to import prices, or the amount of imported goods a nation can purchase per unit of exported goods. A rise in the terms of trade allows households to buy more imports for any given level of exports.

An Example of Long Run Productivity Gains

A good example of the economy-wide benefits of productivity is provided by the United States agriculture industry. Between 1948 and 2000, Total Factor Productivity (**TFP**)[11] of the U.S. agriculture sector enjoyed a significant increase (productivity in 2000 was approximately 2.5 times 1948 levels). However, this aggregate movement was a result of annual TFP growth of only 2 per cent. This demonstrates that harnessing small increases in TFP growth, such as those brought about by microeconomic reform, can compound to result in large overall increases in societal wellbeing.

Figure 1 Total Factor Productivity, United States Agriculture Sector 1948 to 2011



Source: United States Department of Agriculture, Economic Research Service

In this example, the net effect was that agricultural production continued to rise by 1.49 per cent per annum, despite virtually no input growth between 1948 and 2011, whilst agricultural prices rose by far less than the US General Price Index.

As a consequence of this productivity growth and increased agricultural sector output, U.S. labour was diverted to the production of other goods and services. Agricultural production in the U.S. was relatively labour intensive during the early 20th century, with 41 per cent of the U.S. workforce being employed in the sector. However, by 2001/02 this figure had fallen to just 1.9 per cent.

The relatively slow growth in the price of U.S. agricultural produce has also enabled consumers to spend a lower share of their income on food than they did previously, despite increasing consumption of processed food, thereby expanding their consumption possibilities and increasing their standard of living. This is illustrated in a report by the United States Bureau of Labor Statistics that has found that in the United States the proportion of the family budget that is attributed to food spending has fallen significantly over time, from 36.1 per cent of the budget in 1919 to 18.2 per cent in 1998.[12]

This serves to illustrate that productivity growth in a single industry can have substantial impacts on the standard of living in an economy over a long period of time.

[11] Total Factor Productivity is similar to Multi Factor Productivity. However, TFP accounts for all inputs into the production process. It includes capital and labour, as well as energy, materials and services. The terms are often used interchangeably although TFP is more usefully used at an industry level, rather than an economy wide level.

[12] United States Department of Agriculture – Economic Research Service Website, 2013, *Agricultural Productivity in the U.S.*

3.3 How Can Reform Increase Productivity?

Microeconomic reform directly impacts productivity by influencing the input/output relationships in the economy. For example, restricting production of a good by licensing producers can result in higher prices and fewer products available to consumers. A reform that removes licence restrictions, which do not have a public interest justification, can lead to lower prices and a greater supply of the product or service.

Microeconomic reform also results in indirect effects on productivity; these include an increase in competition and openness[13] of the economy. In order to compete, businesses will generally become more productive. The opening of the economy also allows greater access to technology, expertise, trade and investment, all of which result in higher standards of living for individuals.

Microeconomic reform can influence productivity in three ways:

- increasing competition: competitive markets will generally serve the interests of consumers and the wider community by providing strong incentives for suppliers to operate efficiently, be price competitive and to innovate, thus maximising the production of goods and services from the scarce resources available;

- increasing flexibility: reducing regulation to allow firms and industries to react to changes in demand and technology, allowing them to capitalise on these changes to become more productive; and

- increasing capabilities: encouraging a more skilled and educated workforce in order to capitalise on new technology, innovation and specialisation. The Government can also encourage or provide infrastructure at crucial times to assist economic growth.

There are two main measures of productivity; these are labour productivity and multifactor productivity (**MFP**). Labour productivity is a commonly used measure internationally and measures real Gross Domestic Product (**GDP**) per hour worked. MFP on the other hand measures the amount of output (in terms of real value added) produced by a combination of capital and labour inputs. Measuring MFP allows for the allocation of growth between capital and labour inputs.

The Productivity Commission considers the use of MFP to be a more comprehensive indicator of productive efficiency than labour productivity, as MFP provides policy relevant insights into the various drivers of growth.[14] The ERA shares this view and will use MFP as the primary measure of productivity throughout this Inquiry. This has particular relevance to Western Australia because of the relatively large, capital-intensive mining sector in the State. Using labour productivity overstates the contribution of labour because it ignores the contribution of capital.

In simplified terms, MFP is measured using the 'growth accounting framework' in which economic output (in this case, measured by market sector Gross State Product (**GSP**)[15]), is assumed to be dependent on the volume of capital[16] and labour[17] inputs, and the existing

[13] *Openness* in economic terms refers to the ease with which goods, services, innovations, technologies and capital can flow between participants in an economy and the international community.

[14] Productivity Commission, 2009, *Australia's Productivity Performance: Submission to the House of Representatives Standing Committee on Economics*, pg. XI.

[15] This measure does not include public sector productivity. Calculated productivity for the public sector is meaningless as, due to the lack of market prices and quantities for these goods and services, output is estimated from the inputs used in the sector.

[16] Labour inputs are measured in terms of total hours worked.

level of technology. Therefore, increases in GSP can be attributed to increases in capital, labour or the level of technology. However, because productive efficiency (more output per unit of input) can increase for reasons other than technological advancement, the term multifactor productivity is used to represent this concept.

The relationships between these variables allow MFP growth to be calculated by subtracting the growth in inputs (labour and capital) from the growth in output.

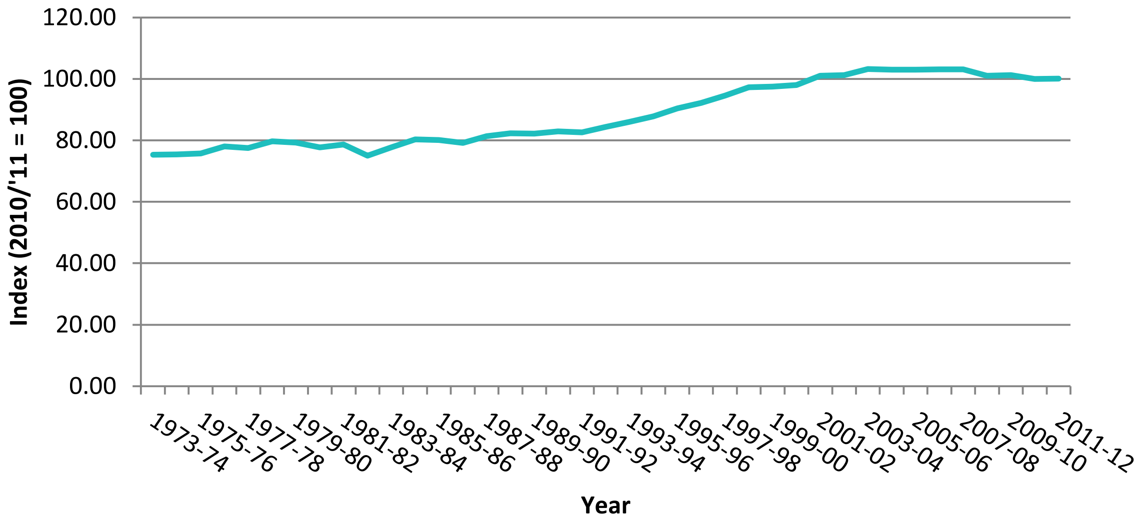
3.4 Recent Performance

Unfortunately, the Australian Bureau of Statistics (**ABS**) does not measure the level of capital stock on a State-level basis, so the ERA has used national statistics and, where possible, has adapted them to reflect the Western Australian context.

Recent estimates of national productivity have shown that productivity growth has fallen from the levels enjoyed during the mid 1990's. Two key reasons for this fall relate to the mining sector.

The Productivity Commission has stated in several detailed studies that it considers the national decline in productivity to be associated with cyclical and structural forces that are temporary or reversible, such as the significant volume of investment that has been made in the mining sector in the past few years.[18]

Figure 2 Australian Multifactor Productivity (1973 – 2012)



Source: ABS data series 5260.0.55.002

The current mining boom has resulted in a surge of investment across Australia, particularly in Western Australia. Before a mine is operational, significant capital investment is required to ready the mine for production. Mining companies must make significant investments up front to prepare the mine for operation before they can reap the benefits of the mine in the future.

[17] Capital inputs are measured by capital services, being the amount of services each asset provides during a period and is calculated by the Australian Bureau of Statistics.

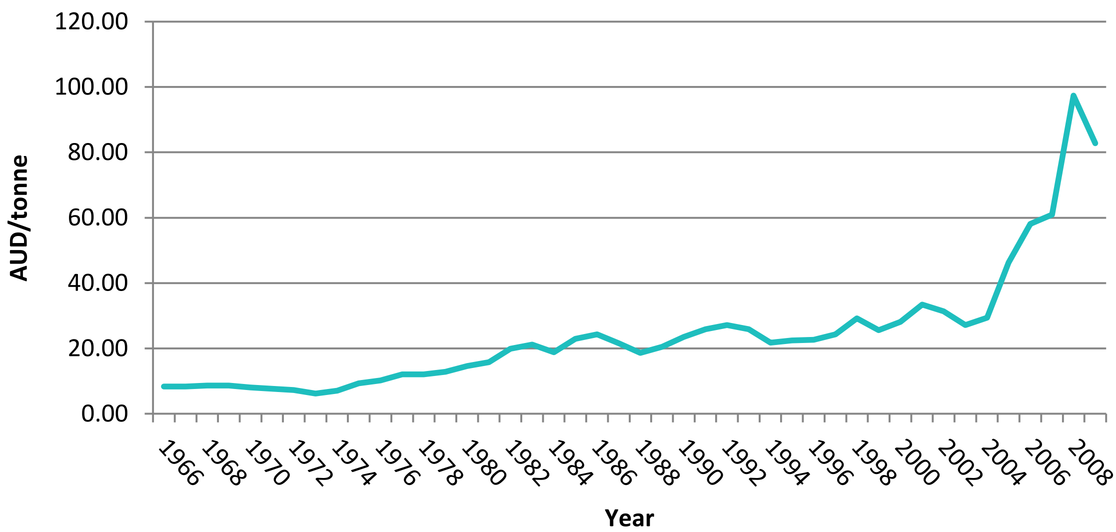
[18] Productivity Commission, 2013, *Looking Back on Structural Change in Australia: 2002–2012*, *Productivity Update* (May 2013)

The way in which productivity is measured results in this appearing as a decline in productivity, because although the capital stock has increased, but as the mine is not yet operational, there is no associated increase in output. However, once the mine becomes operational, measured productivity will increase. This represents the long lag time between investment, capacity, and associated output response.[19]

In addition to the identification of a large number of mineral and gas deposits across Australia, rising export prices have induced large flows of new capital and labour into mining in response to the prospect of higher profits, including tapping of ores that are of lower grade and/or more difficult to extract. Lower grade ores are more difficult to extract and refine and so this has the effect of lowering productivity[20].

The Productivity Commission has noted that, in general, improved terms of trade will increase Australia's income by allowing more imports to be purchased for a given quantity of exports. An increase in the terms of trade is important because it boosts income, spending and economic activity[21]. Rising export prices have led to a substantial increase in overall gross domestic income[22], largely due to the high terms of trade. This is illustrated in Figure 3, which shows historical iron ore[23] prices.

Figure 3 Australian Iron Ore Prices (A$/tonne)



Source: Australian Bureau of Agricultural and Resource Economics and Sciences: Table 293

Income growth can also be achieved by increasing labour inputs (average hours worked, employment rate and participation rate), by increasing capital inputs (via capital deepening), or by MFP improvements.

The Productivity Commission has stated that at some point in the future, increases in the global production of the commodities that have contributed to the increase in the terms of

[19] Productivity Commission, 2008, *Productivity in the Mining Industry: Measurement and Interpretation*.

[20] Gary Banks, Chairman Productivity Commission. Address to the Australian Chamber of Commerce and Industry (ACCI) Annual Dinner in Canberra on 23 November 2011, ***Industry assistance in a 'patchwork economy'***.

[21] Productivity Commission, 2008, *Productivity in the Mining Industry: Measurement and Interpretation.*

[22] Gross domestic income is the total income received by all sectors of the economy within a country.

[23] Iron ore is a rock or mineral from which iron can be extracted.

trade are expected to bring the terms of trade back towards more historical levels.[24] Such an outcome will lower income growth. In order to buffer the effect that a decrease in the terms of trade will have on income, it is important that Western Australia improve its productivity growth. This Inquiry is tasked with identifying microeconomic reforms that will increase Western Australia's productivity growth, and ultimately lead to greater income growth in the State.

As Total Factor Productivity (**TFP**) and MFP are not measured on a State level, it is difficult to assess the productivity of industries within the State. However, MFP is available, by industry, at a federal level. Table 1 shows the federal MFP and West Australia's share of Total Factor Income (**TFI**).[25]

Table 1 Market Sector Industries: National Market Sector Industry Productivity Growth (2004/05 - 2011/12) and Western Australian Industry Share of State Total Factor Income (2011/12)

Market Sector industry	National Multifactor Productivity Growth	Industry Share of WA Total Factor Income
Agriculture, Forestry and Fishing	5.8	1.6
Mining	-10.5	42.8
Manufacturing	0.9	5.8
Electricity, Gas, Water and Waste Services	-5.43	2.6
Construction	4.5	14.4
Wholesale Trade	6.1	3.6
Retail Trade	2.8	3.8
Accommodation and Food Services	3.8	1.5
Transport, Postal and Warehousing	3.0	5.4
Information, Media and Telecommunications	-3.4	1.6
Financial and Insurance Services	-0.8	4.4
Rental, Hiring and Real Estate Services	0.6	1.6
Professional, Scientific and Technical Services	0.5	6.4
Administrative and Support Services	-2.9	2.3
Arts and Recreation Services	2	0.6
Other Services	3.9	1.6
Market Sector industries	0.2	N/A

Source: Australian Bureau of Statistics, Catalogue no. 5260.0 and 5220.0 and ERA analysis.

[24] Productivity Commission, 2012, *Impacts of COAG Reforms: Business Regulation and VET*.

[25] Total Factor Income is the sum of labour and capital income by industry. It differs from GSP by industry, in that it excludes taxes paid and subsidies received by industry, which are not available at the state level.

4 Framework for Undertaking the Inquiry

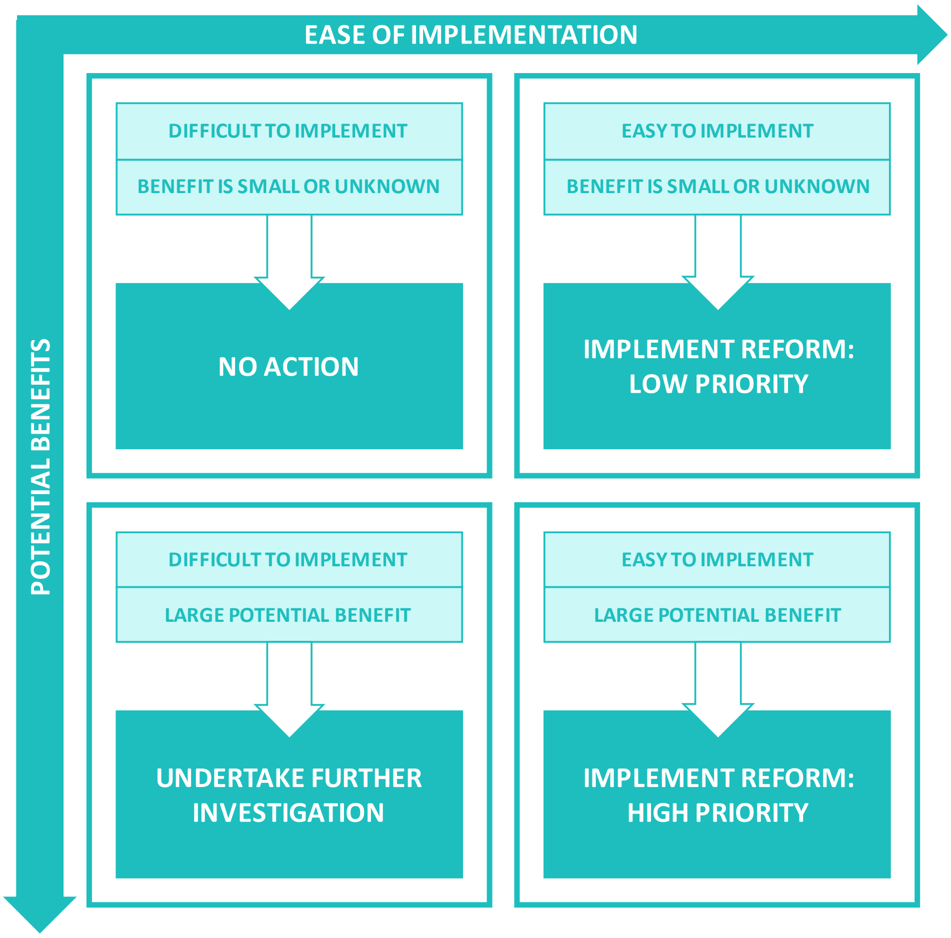
4.1 Background

In its Issues Paper, the ERA noted the importance of practicality in terms of selecting the reforms that might be examined in this Inquiry, as the number of possible reforms was likely to be substantial, and it is not possible to address all potential reforms in sufficient depth. Hence, in the Issues Paper the ERA outlined that it intended to focus on:

- the delivery of an initial package of high-priority, relatively straightforward reforms likely to deliver a clear benefit; and
- the development of an analytical approach allowing for a constructive assessment of the value of any future reform.

As set out in the Issues Paper, Figure 4 below provides an overview of the ERA's approach to possible reforms in terms of their potential benefit versus difficulties in implementation.

Figure 4 ERA's Approach to Assessing Potential Reforms



The ERA Issues Paper stated that the ERA only intends to address reforms over which the State Government has at least some measure of control. As a result, reforms that may be extremely beneficial to the State, but that require Commonwealth Government approval or action, have not been considered.

As a result of consulting with Government Departments and reviewing submissions received in response to the Issues Paper, the ERA concluded it was necessary to decide which broad areas should be reviewed, before focusing on specific reforms within each of those areas. Based on this initial assessment, the ERA applied the methodology shown in Figure 4 and identified areas for further analysis. These areas are discussed below.

As an example of an area that the ERA proposes not to examine in the Draft Report, the ERA concluded that despite large potential gains, the health sector's size and complex nature make it impractical to conduct a meaningful review of potential reforms within the timeframe of this Inquiry.

The remainder of this chapter provides more detail on reform in the context of the Western Australian economy, and outlines the ERA's framework for making its initial selection of areas for review. Chapter 5 outlines those areas that the ERA proposes to review in this Inquiry.

4.2 Microeconomic Reform and the Western Australian Government

4.2.1 Background

This Section notes the difference between microeconomic reform at the State level and reform at the Federal level, outlines State-level responsibilities and concludes with a number of guiding principles that the ERA proposes to use for prioritising State-level reforms for examination.

4.2.2 Microeconomic Reform

Microeconomic reform necessarily includes an evaluation of the need for government involvement in an economy. It considers the value of a government's involvement in:

- producing a good or service;
- owning assets in income-producing businesses;
- regulating a product market;
- delivering infrastructure;
- providing assistance to a firm or industry;
- raising or lowering taxes; or
- collecting taxes in a different manner.

Historically, most microeconomic reforms in Australia have resulted in a lessening of government involvement in the economy. Microeconomic reform has been described as encompassing "a range of government policies, which change incentives facing private and public sector producers with the aim of inducing higher standards of productivity to support higher living standards".[26]

However, microeconomic reform has a wider aim than just productivity. It also aims to increase the 'economic efficiency' of the economy. Economic efficiency is often thought of as productivity, but economic efficiency is a much broader concept. Economic efficiency has a clearly defined meaning in economics, embodying three components. These are:

- goods and services are produced and supplied at lowest cost, which is the most commonly understood form of efficiency;
- the market supplies an amount of a good or service where the price of the last unit produced is equal to the value that consumers place on it; and
- investments in new capacity are made at the right time and of the appropriate scale, so as to balance the trade off between the cost of a new investment and the increased efficiency from that new investment.

4.2.3 National Reform

Significant historical Federal-level reforms aimed at increasing the efficiency and productivity of the Australian economy have included[27]:

- changes to regulation of the Government sector, including corporatisation and sometimes privatisation of government-owned businesses;
- reform of protections against international trade, such as reductions in import tariffs;
- reform of product markets, such as the reduction of barriers to entry for the finance and aviation industries;
- reform of agricultural markets, such as tariff reductions and deregulation in the marketing of wool and grains;
- reform of labour markets (for example, at the time of Borland's writing, a move away from collective wage bargaining towards individual level negotiation), and a reduction in the role of the Industrial Relations Commission; and
- reform of the tax and welfare systems, including the introduction of the Capital Gains Tax (**CGT**) and the Goods and Services Tax (**GST**), and changes in eligibility criteria for welfare recipients.

National reforms have generally focused on Government intervention in private markets, such as labour, commodity, trade and foreign exchange markets. Additionally, tax has been a significant focus for reform, given the Commonwealth Government's extensive revenue raising powers.

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[26] Freebairn, J. 1998, *'The Effects of Microeconomic Reforms on Product and Factor Markets'* in Microeconomic Reform and Productivity Growth, Productivity Commission pg. 49.

[27] Borland, J. 2001, *Microeconomic Reform in Australia – An Introduction*

Service delivery reform has been less extensive, mainly because this area tends to be a responsibility of the States rather than of the Federal Government. Nevertheless, the Commonwealth has reformed delivery of some services into corporate businesses, and in some cases privatised those businesses (for example, air travel, banking and telecommunications).

4.2.4 State-Level Responsibilities

4.2.4.1 *Background*

As outlined in Chapter 5.1 of the Issues Paper, the State Government has substantially different responsibilities to those of the Commonwealth. From the list of previous national reforms above, the State has no role in regulating international trade, only a minor role in industrial relations, and more limited responsibilities in regulating product markets.

Nevertheless, the Western Australian Government does regulate certain product markets through business licensing legislation, such as the *Marketing of Potatoes Act (1946)* and the *Taxi Act (1994)*. It also owns and operates certain businesses, such as those in the electricity and water services sectors. Reform in these areas may have comparable benefits to the Federal-level reforms already undertaken.

In contrast to the Federal Government, the State Government has far greater responsibilities in terms of delivery of Government services. In 2012/13, the State Government spent almost $50 billion to deliver services to the citizens of Western Australia ($42 billion in Total Public Sector operating cash expenditure and $7 billion in cash expenditure on non-financial assets).

The State's service-delivery activities can be broadly classified into two categories:

- those where the State Government provides a valuable service, but one that has little impact on the wider productivity of the economy. Many social services fall into this category such as child protection and disabilities services. Reform in these areas can improve service delivery and reduce Government expenditure, but will have only a minor impact on economy-wide productivity; and

- those where the Government provides a valuable service that also has a considerable impact on economy-wide productivity. Services affecting factors of production (for example, health and education), impacting on the productivity of the workforce, or delivering logistical services such as transport infrastructure fall into this area.

The ERA notes that, whilst provision of the type of service described in the first bullet point above is a valuable role of Government, the second type described above (which impact upon economy-wide productivity) is more consistent with the generally understood aims of microeconomic reform, and more directly addresses the Terms of Reference for this Inquiry.

The State Government's major areas of expenditure in 2013/14 are:[28]

- health (26 per cent of General Government Expenses);

- education (16 per cent);

[28] Government of Western Australia, 2013-14 Budget: Economic and Fiscal Outlook – Budget Paper No. 3, Page 126, Figure 2.

- law and order (10 per cent); and
- transport, rail and roads (8 per cent).

All of these areas are likely to have impacts on the economy well beyond the value of the actual service performed. In particular, there is extensive evidence demonstrating that investment in health, education and transport can have substantial impacts beyond the direct provision of the specific services.

Infrastructure is, to some extent, delivered by many parts of Government, but is particularly relevant to the transport sector. In the 2013/14 Budget, major transport infrastructure projects included:

- $432 million over the next four years for the $1.9 billion MAX light rail service;
- $174 million over the next four years for the $2 billion airport rail link;
- $325 million over the next four years for the Perth to Darwin Highway;
- $46.5 million over the next three years to construct a new multi-storey car park at Edgewater train station; and
- total spending of $1.1 billion on roads in 2013-14, including new roads and maintenance of the existing road network.

Other major areas of infrastructure expenditure include $2.6 billion on electricity and water infrastructure, and $1.1 billion on health infrastructure.

Although the ERA considers that Government services that impact on the wider economy could appropriately be examined as part of this review, some of these areas are extremely large and complex, preventing the ERA from addressing them meaningfully in the limited timeframe provided for this Inquiry.

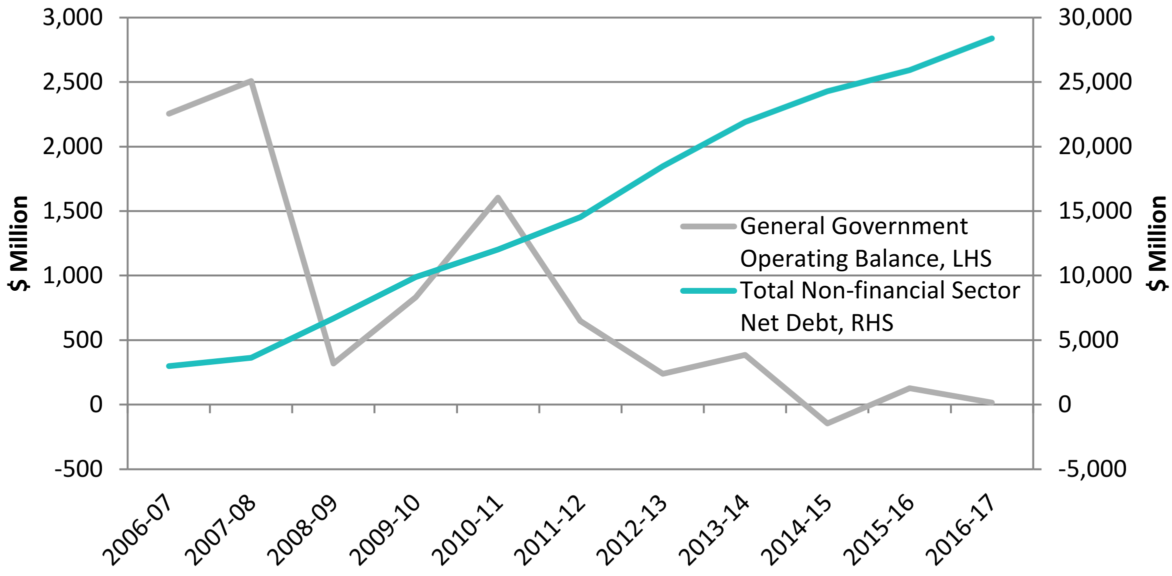
4.2.4.2 *State Government Budgetary Context*

Before analysing State Government activities, it is worth considering the budgetary context within which the Government operates. As noted in the Issues Paper, the Western Australian economy has grown rapidly over the past decade and is forecast to grow strongly over the Budget forecast period. Strong economic growth has brought robust revenue growth, particularly from mining royalties, but has also contributed to rapid population growth,[29] leading to a considerable increase in demand for Government services and infrastructure. Additionally, as noted in the Issues Paper, Western Australia's GST revenue is forecast to fall from $3,454 million in 2011/12 to $500 million in 2016/17, as a result of changes to Federal Government policy (according to the recommendations of the Commonwealth Grants Commission) using horizontal fiscal equalisation[30].

[29] The Australian Bureau of Statistics has estimated that between March 2008 and March 2013 the population of Western Australia grew by 15.9%, compared to the national average of 8.9% for the same period (Series ID:3101.0)

[30] The aim of horizontal fiscal equalisation is to enable each State and Territory to provide the same standard of services, providing it make the same effort to raise revenues from its own sources.

Figure 5 Overview of Western Australian Government Finances



Source: Department of Treasury, State Budget Papers: Economic and Fiscal Outlook, 2013-14.

Figure 5 above provides an overview of the Western Australian Government's finances, as released in the 2013/14 State Budget. Two issues are particularly noteworthy:

- the General Government Net Operating Surplus[31] has narrowed from $2,254 million in 2006/07 to an estimated $239 million in 2012/13, and is expected to fall into deficit in 2014/15; and

- total Government Sector net debt has increased from $2,984 million in 2006/07 to an estimated $21,909 million in 2013/14. Net debt is expected to further increase to $28,839 million in 2016/17, and includes preliminary expenditure for projects expected to cost a further $3.5 billion beyond the forward estimate period.[32]

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[31] The ABS Government Finance Statistics 2010/11 explanatory notes defines the function of **general government** is to provide non-market goods and services (e.g. roads, hospitals, libraries) primarily financed by taxes, to regulate and influence economic activity, to maintain law and order, and to redistribute income by means of transfer payments. It also includes agencies and government authorities under departmental administration that are engaged in the provision of public administration, defence, law enforcement, welfare, public education and health. Also included are non-departmental bodies that independently perform the government functions of regulation (e.g. Nurses Registration Boards and the Maritime Safety Authority), provision of non-market services (e.g. the Australian Broadcasting Corporation) and redistribution of income.

Total Public sector is the consolidated total of general government, public non-financial corporations and public financial corporation's sectors. The main function of public non-financial corporations (PNFCs) is to provide goods and services that are predominantly market, non-regulatory and non-financial in nature, and financed through sales to consumers of these goods and services. Enterprises in the PNFC sector differ from those in the general government sector in that all or most of their production costs are recovered from consumers, rather than being financed from the general taxation revenue of government. Some enterprises, however, do receive subsidies to make up for shortfalls incurred as a result of government policy, for example, in the provision of 'community service obligations' at concessional rates. Public financial corporations (PFCs) are government owned or controlled enterprises which engage in financial intermediation (i.e. trade in financial assets and liabilities), such as the Reserve Bank of Australia, government owned borrowing authorities and insurance offices and home lending schemes

[32] The Budget funded $432 million over the next four years for the $1.9 billion MAX light rail service and $174 million over the next four years for the $2 billion airport rail link. The balance of the projects has not yet been incorporated into the Budget. The new Perth Stadium and Museum projects both have substantial financial commitments beyond the budget term of forward estimates totalling over $500 million.

The Standard and Poors ratings agency recently downgraded Western Australia's credit rating from AAA to AA+, citing "structural budgetary issues that aren't sufficiently being addressed", including a small operating margin relative to peers and a substantial increase in debt.[33] Standard and Poors also highlighted rapid expense growth as a major contributing factor to the credit downgrade.

Of relevance to this Inquiry, the ERA notes that the Western Australian Government currently faces tighter financial conditions. Therefore, efficient planning, provision and pricing of services and infrastructure become more crucial in maximising benefits to the wider economy.

4.2.5 ERA's Approach

The Terms of Reference for this Inquiry require the ERA to focus on reforms that contribute to economy-wide productivity. Therefore, the ERA will not examine reforms of Government expenditure that lead to savings but only yield a minimal impact on economy-wide productivity

To further prioritise the reforms to be examined, the ERA has identified a number of guiding principles, as outlined below.

Government Expenditure and Taxation

1. *The Government should only enable the delivery of goods and services (including infrastructure) that the private sector is unable to commercially provide.*

   The private sector is generally effective at producing and distributing the range of goods and services consumers demand. However, there are some goods and services that can only be delivered by Government, or will be produced most efficiently by Government. Principle 1 aims to ensure that the State Government is not using its resources to produce goods and services that are better delivered by the private sector.

   This has particular relevance in situations where the Government has a conflict of interest between its role as owner of an asset that is used to provide essential services, whereby it is expected to maximise profits and its responsibility to act in the best interest of its citizens as a regulator.

2. *The Government should enable the delivery of goods and services (including infrastructure) for which it is responsible as efficiently as possible*.

   This principle states that, once the Government has decided what it should provide (or fund), it should go on to do so in the most efficient[34] manner possible. To do otherwise would result in the Government:

   - consuming scarce resources such as labour, which could affect the private sector at times when the unemployment rate is low; or
   - implementing a higher level of taxation than would otherwise be necessary.

3. *The Government should identify and implement efficient and practical taxes, fees, and charges when collecting the revenue it requires to operate*.

[33] Australian Broad Casting News, 18 September 2013, *WA loses prized triple-A credit rating*.

[34] Here, 'efficiency' refers to economic efficiency as defined in 4.2.2 above.

Inefficient[35] or inappropriate taxes can lead to a range of negative economic effects. Additionally, some taxes may be more damaging to the State's economic wellbeing than others. However, the Government also needs to collect enough revenue to undertake its activities. This Principle simply notes that the Government's required revenue should be collected via the most efficient mix of taxes practicable.

Government Intervention

4. *The Government should focus its interventions in private markets where there is a clear net benefit to be gained over and above the operation of the private market under normal common and trade practices laws.*

The State Government may appropriately intervene in private markets for a range of reasons. These can include economic, distributional, consumer protection, social and environmental objectives. However, it is important that a net benefit (however defined) is established before an intervention is implemented or maintained. This should include consideration of any unintended consequences from its actions.

The following chapter examines major areas for reform and considers whether each can and should be considered further in the Draft Report for this Inquiry.

[35] 'Inefficient' in this context refers to a situation where resources are not being put to their best use.

5 Summary of Proposed Areas for Review

The ERA intends to examine the areas outlined below in its Draft Report. These areas are consistent with the ERA's stated principles and have the potential to impact positively on economy-wide productivity. Additionally, the ERA is of the opinion that it can address each of the included areas in reasonable depth, given the resource and timing restrictions on this Inquiry.

At this stage of the Inquiry, the ERA has simply highlighted areas for further consideration and will not make any recommendations for specific reform until the publication of the Draft Report. These areas have been identified as falling under one of the principles identified in the previous section as illustrated below.

1. *The Government should only enable the delivery of goods and services (including infrastructure) that the private sector is unable to commercially provide.*

    - Government ownership of assets and businesses

2. *The Government should enable the delivery of goods and services (including infrastructure) for which it is responsible as efficiently as possible.*

    - The efficiency of State infrastructure spending, planning, and utilisation

3. *The Government should identify and implement efficient and practical taxes, fees, and charges when collecting the revenue it requires to operate.*

    - The efficiency of current State Government taxes and charges

4. *The Government should focus its interventions in private markets where there is a clear net benefit to be gained over and above the operation of the private market under normal common and trade practices laws.*

    - The Cost of Complying with Red Tape

    - The current restrictions on product markets in Western Australia, in particular:

        - Potato Marketing

        - Industry Licensing

            - Taxis

            - Liquor Licensing

            - Licensing of Trades

        - Retail Trading Hours

        - Domestic Gas Reservation Policy

The ERA acknowledges that planning reform, health sector reform, and education reform could potentially improve economy-wide productivity significantly. For example, the Productivity Commission[36] estimated that in addition to substantial savings to Government,

[36] Productivity Commission, 2007, *Potential Benefits of the National Reform Agenda*.

reform of the health sector could increase Gross Domestic Product (**GDP**) by 6 per cent, and reform of the education sector could increase GDP by 3 per cent.[37]

However, these areas are extremely complex and there are several Government review processes currently underway in each area. Hence, the ERA considers that each of these areas would be better suited to a stand-alone inquiry in the future.

Reform of Government procurement is raised in several submissions. However, the ERA considers that the main impact of any reform in this area is likely to be on Government finances, rather than on the productivity of the wider economy. Hence, the ERA does not propose to further examine these reforms as part of this Inquiry. Similarly, a reform of the State industrial relations system (ceding its remaining power to the Commonwealth) may provide savings to the State Government but given the dominance of the Federal industrial relations system in Western Australia would not be expected to result in material impacts on productivity in the wider economy.

Further, several submissions raised issues regarding the regulation of forestry in Western Australia. The issues raised are broad ranging and complex and would require substantial consultation with stakeholders. As such, the ERA proposes that this issue is the subject of a dedicated review and is not part of this Inquiry.

The areas chosen by the ERA for further review have been listed in no particular order, and are examined in detail in Chapters 7 to 10.

While the ERA intends to examine these areas, it is also open to the examination of other areas, where submissions in response to the Discussion Paper provide sufficient quantitative evidence to justify the inclusion of a proposed reform, within the scope of the Inquiry.

Further, if the ERA finds it does not have enough time to sufficiently examine all areas mentioned in this Discussion Paper, some issues may not be reviewed.

[37] Productivity Commission, 2007, *Potential Benefits of the National Reform Agenda*.

6 Methods of Analysis

6.1 Background

In the Issues Paper the ERA noted that it intended to use Cost-Benefit Analysis (**CBA**) and, where practical and appropriate, Computable General Equilibrium (**CGE**) modelling to assess the net benefit delivered by specific reforms. These methods are explained below. The ERA received no submissions in response to the Issues Paper regarding alternative methodologies and so intends to adopt these methods in preparing its Draft Report.

6.2 The ERA's Approach

The ERA will use the following analytical techniques in its assessment of the potential merit of specific reforms:

- CBA: the estimation of future financial benefits and costs likely to be delivered and incurred as a result of a reform. This includes costs and benefits not captured in market prices (for example, pollution); and

- CGE modelling: using historical economy-wide data to estimate how the economy might respond to a reform.

Generally speaking, CGE modelling is best suited to economy-wide changes, particularly changes in relative prices (for example, a tariff reduction). Cost-benefit analysis is usually used for smaller changes (for example, an infrastructure investment) or when the benefits are not directly valued in a market (for example, time savings through a new road or public transport system).

The ERA appreciates that not all issues (nor all solutions) can be easily quantified, and so there will always be a measure of subjectivity associated with such analyses. Interested parties will be able to comment further on the ERA's methods in public submissions to the Draft Report.

7 Government Ownership of Assets

7.1 Principle

Principle: The Government should only enable the delivery of goods and services (including infrastructure) that the private sector is unable to commercially provide.

7.2 Background

Government provision of services, especially regarding the sale of assets and businesses, can be a controversial topic. However, it has recently become a topical issue with Premier Colin Barnett stating in response to Western Australia's loss of its triple-A credit rating, that:

> *There will be asset sales. The most immediate and direct way of reducing debt is to sell something or several things. There will be a program of asset sales introduced very quickly.*[38]

The ERA sees value in considering both the advantages and disadvantages of asset sales, and the reasons as to why (or why not) the Government might wish to sell assets. The ERA intends to perform a review of Government assets, including those held by Government Trading Entities (**GTEs**),[39] such as State-owned electricity and water providers. The ERA believes that the review and discussion surrounding Government ownership, within the context of this Inquiry, will inform future debate regarding the alternatives available to the Government.

There are legitimate reasons for Government ownership of corporations or assets. However, in some circumstances, the initial reason for Government ownership may become obsolete over time due to changing circumstances, and Government ownership may no longer be in the best interest of consumers. Therefore, a periodic review of Government ownership is necessary to ensure that consumers' interests are being served efficiently. If it is determined that the consumer's interests are not being best served by the Government ownership, the Government may consider relinquishing ownership either through leasing or selling the asset.

The available mechanisms for purchasing a new asset, as well as the possibility of recycling current Government assets into other projects, are discussed below.

[38] Thirty-Ninth Parliament of Western Australia, First Session, 2013 *Parliamentary Debates: Legislative Assembly* 18 September 2013 (Hansard) pg. 4336.

[39] That is, corporations owned and operated by the Government.

7.3 Reasons for Government Ownership

Continued Government ownership of an asset should only occur where the net benefit of Government provision outweighs the net cost. This occurs in certain circumstances, some of which are discussed below.

Firstly, Government ownership may be beneficial in situations involving a public good,[40] where private provision of the good or service is not economically efficient. An example of this is the road infrastructure in regional Western Australia. Without it, access to the region would be very difficult, yet recovery of costs from those that use of the road is also very difficult, as its use cannot be restricted to certain users. The lack of ability to recover costs means that no private firms would invest in building the roads. The assets are not commercially viable yet there are large social and economic benefits in providing them. The Government takes on the responsibility for investing in and maintaining the asset to ensure universal access.

Secondly, if the Government perceives there is a lack of private resources or interest to finance investment in an asset, the Government can provide that asset (for example, infrastructure). This situation can occur when there is a rapid growth in demand for the good or service and there is a perception that the private sector does not have sufficient funds to provide for the growth in demand.

Thirdly, the Government provides (or funds) goods and services when it is purely in the interest of citizens. For example, the Government operates the RAC Rescue helicopter service (**RAC Rescue**) as part of the Department of Fire and Emergency Services. The RAC Rescue team provides vital search and rescue and critical care medical services to people 24 hours a day, every day of the year. The operation of this helicopter team can be rather inefficient in strict economic terms, if it is only used in emergencies, yet the staff and vehicle need to be available at all times of the day. However, if rescue helicopters were run as a private service, there would be temptation to use the staff and vehicles for other productive uses during down times. This would potentially result in a longer response time to emergencies. To ensure that certain standards are met, the Government provides (or funds) the good or service.

7.4 Reasons for Relinquishing Government Ownership

7.4.1 Background

The growth in the economy and population, as well as the ageing of current Government assets, has resulted in an increased need for upgrades and expansion of existing Government assets. For example, population growth has led to an increased number of people living further away from the city, yet still commuting to the city. This has resulted in a higher demand for expansion of public transport to these areas, such as the expansion of the Perth-to-Mandurah Railway. The State's capacity to finance the demanded infrastructure is limited and may not be able to meet growing demand for upgrades and maintenance of existing assets. This is commonly known as the "infrastructure gap".

In order to meet the infrastructure gap, Government can choose to relinquish existing assets to the private sector, with the new owner taking responsible for maintaining the asset. Such arrangements typically transfer a range of ownership and financial risks (such as demand risk) and result in the associated service(s) being delivered by private companies. This

[40] A public good is a good that one individual can use without reducing the good's availability to others, and where the owner of the good cannot exclude individuals from using that good.

process is referred to as “recycling” of Government assets. An example of asset recycling is the recent sale of Newcastle Coal Port announced by the NSW State Government. Proceeds from the sale are to be reinvested into infrastructure upgrades in Newcastle including a light rail service.[41]

However, the primary aim of relinquishing Government ownership should be to increase the public benefit that is derived from the delivery of a good or service. For instance, if the private sector can provide the good or service at a lower price, or at a higher quality at the same price, with minimal costs to society then it is more efficient to allow these goods and services to be delivered by the private sector.

Additionally, there are situations where a Government has a conflict of interest between its roles as:

- the owner of an asset, whereby it desires higher prices to increase profits and dividends;
- a regulator of the asset, whereby it wants the asset to provide the service at a cost reflective price; and
- a government, whereby it might make decisions on a social policy basis (such as providing a below-cost service to some customers).

There is also some sovereign risk to competitors and customers of the asset who could be affected if a government makes decisions on the asset on a non-commercial basis (e.g. subsidising a service to a particular community group).

Financial reasons to sell assets are less clear. The West Australian State Budget sets financial targets that the Government aims to meet. Government assets are currently contributing positively and negatively to meeting these targets. The targets are to:

- maintain or increase the real net worth of the total public sector;
- achieve an operating surplus for the general Government sector;
- maintain the ratio of non-financial public sector net interest costs, as a share of revenue, at or below a certain percentage; and
- ensure that real per capita own-purpose general Government[42] expenses do not increase.[43]

To be consistent with the Government’s financial targets, Government assets should only be relinquished for financial reasons if the sale price exceeds the present value of the future income stream of that Government asset.[44] This would increase the real net worth of the total public sector and maintain or reduce the real per capita own-purpose general government expenses. This situation occurs when the private sector can achieve greater efficiencies in providing the good or service than the Government. Therefore, the future net revenue of operating the business is higher for the private sector than the future net revenue of the Government operating the business. These efficiency improvements can also be passed onto consumers through lower prices.

[41] New South Wales Treasury, 2013, *Long-Term Lease of the Port of Newcastle Scoping Study Outcomes.*

[42] As defined in section 4.2.4.2.

[43] Government of Western Australia, 2012, *Government Mid-year Financial Projections Statement*, Page 45.

[44] The present value of a future income stream is what the total future income is worth in today’s dollars.

7.4.2 *Forms of Regulation*

Although the Government may choose to relinquish ownership of assets, the Government still has the ability to influence the asset, through regulation, if it is deemed necessary.

For example, Governments may decide to ensure that a necessary good or service is available to all citizens. For example, the Government might wish to ensure that all citizens can access clean drinking water at a reasonable price, regardless of who owns the asset. There are several methods by which Government can meet its social obligations; the most common are discussed below.

If the Government is concerned with price related issues, the Government may:

- monitor prices charged to consumers. This provides no real guarantee but it acts as a deterrent to price increases; or

- implement independent economic regulation, which sets prices over a predetermined period.[45]

If the Government is more concerned with non-price issues such as service standards, availability and environmental standards, the Government can:

- monitor the standard. Though, this gives no guarantee that the standards will be met, however, it may be appropriate for certain industries or asset holders.

- set licensing requirements.

- introduce legislation to set the standards that the Government requires and penalties for non-compliance.

- implement independent economic regulation, which sets access arrangements. These can detail the terms and conditions that the asset owner must meet.

7.5 Submissions

Two public submissions discussed Government ownership of assets in detail. The main points included in these submissions are discussed below. The full submissions are available on the ERA website.

Chamber of Commerce and Industry (**CCI**)

CCI stated that with the tight budget, the Government must consider ways to spend scarce taxpayer dollars more efficiently. CCI calls for the privatisation of Government assets that could be efficiently operated by the private sector. CCI believes the ERA is well placed at this point in time to conduct a review of State Government owned infrastructure assets and assess those that could be operated more efficiently by the private sector.

Mannkal Economic Education Foundation (**Mannkal**)

[45] This involves a greater degree of care and analysis. However, it also encourages the private owner to act efficiently. If the operator can produce that good or service below the set price, it can keep the profits derived from the efficiency. When the next price setting takes place, the price will be readjusted to the rate at which the operator can efficiently produce those goods or services.

Mannkal considers that the State Government is too active in activities that could be left to the private sector. Mannkal encourages an initial review of GTEs and then to expand the review to service deliveries that could also be privatised. The submission does not call for immediate privatisation but a roadmap that eventually leads to divestment of State assets.

7.6 Previous Reviews and Studies

There is a vast amount of literature examining the area of Government ownership. The studies most relevant to the West Australian context are discussed below.

A series of studies have been produced by the Productivity Commission since 1991, analysing the performance of Government Trading Enterprises (**GTE**s). The reports review the major GTEs in each state according to their financial performance. The most recent of these reports found that in 2006/07 the majority of GTEs failed to achieve the risk-free rate of return[46]. The Productivity Commission found that many GTEs were not earning an appropriate level of profit for the investment and risk that the Government accrued due to that GTE. The reports provide valuable insight into the performance of GTEs as well as industries as a whole. There is a time lag involved in the analysis, with the latest report released in 2008 examining the period from 2004 to 2007.

More recently, in 2009, the Western Australian Economic Audit Committee (**EAC**) released a report titled *Putting the Public First*. The ERA considers that the reforms from the EAC provided a good framework for addressing the question of Government ownership. Most importantly, the ERA considers that the issue of asset sales should be based on a rigorous analysis of why the State owns each entity and whether it makes sense to continue doing so. The report recommended[47]:

> *Review Government Trading Enterprises (**GTEs**) to ensure that the governance and ownership of each business is appropriate for delivering Government's policy objectives. The review should address the following issues:*
>
> *a) Does government need to be an active participant in the markets (due to market failure) or is it simply replicating something the private sector can do (with appropriate regulation)?*
>
> *b) Can the GTE operate independently of Government? What policy outcomes is Government seeking from the GTE (for example, fully commercial provider of specific outputs, a source of revenue, industry and/or social policy)?*
>
> *c) What is Government's broader policy for the market in which the GTE operates and does the policy have implications for the appropriate ownership and governance of a GTE participating in the market?*
>
> *d) The relative merits of outsourcing, rationalising or decorporatising the GTE, and the impact of these options on its governance.*

The ERA considers that the review of GTEs proposed by the recommendation is an appropriate process to inform the Government ownership debate. However, the ERA would extend this recommendation to the wider definition of Government assets.

[46] The risk free rate of return is the interest an investor would expect from a risk free investment over a specified period of time.

[47] Economic Audit Committee, 2009, *Putting the Public First,* Recommendation 30, pg.133.

7.7 ERA's Approach

The aim of the ERA's proposed review of Government assets is to inform the debate surrounding the costs and benefits of Government ownership. The review will assist in providing transparency regarding the performance and operation of assets.

The ERA will undertake a review consistent with the recommendation of the EAC to inform the Government ownership debate within this Inquiry. The ERA will not have the capacity to review every Government asset. Due to the vast number of government assets, the ERA will prioritise the review of assets that:

- Are run by private industry in other jurisdictions;
- Appear at first glance to be compatible with private ownership; or
- Have been raised in the public forum as being compatible with private ownership.

7.8 Questions for Interested Parties

In preparing your response, you may wish to address the question provided in the box below. The questions cover a range of issues that will be considered by the ERA in conducting this Inquiry and are intended to assist you in developing a constructive response.

To aid the ERA's analysis for the Draft Report, and to ensure that analysis of the reforms with the greatest net benefits is progressed, the ERA encourages you to clearly articulate the expected benefits and costs of the reform on which the submission is centred. If you are able to support your submission with robust and relevant information and data, the ERA will find this particularly useful in assessing the benefits and costs of your proposal.

1. Can you identify any government assets that should remain government operated? If so, please provide this justification.
2. Can you identify any government assets that should not remain government operated? If so, please provide this justification.

7.9 Further Resources

If you are preparing a submission that relates to Government ownership issues, you may find the following resources useful:

Australia's Public Infrastructure: Part of the Answer to Removing the Infrastructure Deficit (Infrastructure Australia, 2012)

Financial Performance of Government Trading Enterprises (Productivity Commission, various years)

Putting the Public First (Economic Audit Committee, 2009)

State Budget 2013-14, Budget Paper No.3 (Department of Treasury, 2013)

8 State Infrastructure

8.1 Principle

Principle: The Government should enable the delivery of goods and services (including infrastructure) for which it is responsible as efficiently as possible.

8.2 Overview

Infrastructure has a direct influence on citizens' everyday life, in addition to influencing the productivity of an economy. Ensuring the right infrastructure is provided in the right place, and at the right time, can deliver significant benefits for the State's economy. Likewise, poor decisions in relation to infrastructure can impose significant costs upon the community.

It is important to note that the Federal Government manages certain infrastructure available in the State. However, the ERA will only be looking at infrastructure that is managed by the State. Therefore, defence services, telecommunications facilities, and a range of projects initiated by Infrastructure Australia are not covered within this Inquiry. The infrastructure managed by the State Government includes public utilities, railways, most roads, emergency services, hospitals, prisons and schools.

The discussion of State Infrastructure is important in any microeconomic review. However, it has become especially topical since the 2013-14 State Budget was released, in which the infrastructure-spending programme totals $26.9 billion over four years.[48] Due to the significant amount of investment, it is critical that infrastructure planning, infrastructure project funding, and governance and oversight functions are performed accurately and adequately. This chapter addresses issues in each of these areas, as they relate to Western Australia.

8.3 State Owned Public Utilities

The Western Australian Government owns and operates several different corporations (referred to as 'Government Trading Entities' or '**GTEs**') that work to deliver the State's public utilities. The State's major GTEs include the four electricity corporations[49], the Water Corporation and the Public Transport Authority.

The ERA provides independent advice to the State Government on a range of functions performed by the State's GTEs. Where the ERA is already involved in reviewing these functions, they will not be considered within the present Inquiry. (For example, the ERA will not examine the Wholesale Electricity Market (**WEM**) as it has an ongoing role in this area, but it may consider the efficient use of infrastructure related to time of use pricing.)

The ERA does not regulate infrastructure in the water and wastewater industry. However, the ERA considers that there are potential benefits in reviewing the infrastructure procedures in the water and wastewater industry.

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[48] Government of Western Australia, Ministerial Media Statement, 8 August 2013, *State Budget 2013-14: Investing in infrastructure to support our growing State*.

[49] The electricity corporations are Verve Energy, Western Power, Synergy and Horizon Power. A merger of the State's electricity retailer (Synergy) and generator (Verve Energy) was announced on 10 April 2013 with the single entity to begin business by 1 January 2014. Source: Department of Finance, 2013, *Merger of Synergy and Verve Energy.*

8.3.1 Water and Wastewater Industry

Australia's urban water sector is responsible for providing sustainable, secure and safe drinking water and wastewater services, and includes such services as water harvesting; water manufacturing (for example, desalination); storage; treatment and distribution; and wastewater removal and treatment. Urban water utilities can also be responsible for stormwater and flood mitigation services, and the sector has a role in encouraging the responsible use of water and water conservation.

In 2011, the Productivity Commission undertook an Inquiry examining the case for microeconomic reform in Australia's urban water sector, [50] at which time, the ability of the nation's urban water systems to meet demand for water had been challenged by severe droughts, climate change, growth in urban populations and ageing water infrastructure. The Productivity Commission noted that Governments had largely responded by implementing prolonged and severe water restrictions, and by investing in desalination capacity, resulting in large costs to consumers and the community. The Productivity Commission noted that:

- water restrictions were likely to have cost in excess of a billion dollars per year (nationally) from the lost value of consumption alone;

- inefficient supply augmentation, could cost consumers and communities up to $4.2 billion over 20 years; and

- large government grants for infrastructure may have led to perverse outcomes.

Moreover, the Productivity Commission concluded that conflicting objectives and unclear roles and responsibilities of governments, water utilities and regulators had led to the inefficient allocation of water resources, misdirected investment, undue reliance on water restrictions, and costly water conservation programs. The largest gains were therefore likely to come initially from establishing clear objectives, and from improving the performance of institutions with respect to roles and responsibilities, governance, regulation, competitive procurement of supply, and pricing, rather than by trying to create a competitive market.

The ERA raised issues with the current arrangements for maintaining water supply security in Western Australia in its 2008 *Inquiry on Competition in the Water and Wastewater Services Sector*. These issues include:

- a lack of sufficient checks and balances in the existing system of centralised coordination;

- an unclear delineation of the present roles and responsibilities of various parties involved in the sector; and

- a lack of opportunity and incentive for the private sector to develop alternative innovative supply and demand management options.

At the time, the ERA recommended the establishment of an Independent Procurement Entity (**IPE**) as a statutory authority, with the explicit objective of maintaining supply security at least expected cost, within policy and regulatory constraints. In performing this function, an IPE would consider both the cost of providing services, and wider societal costs and risks.

[50] Productivity Commission, 2011, *Australia's Urban Water Sector*.

The ERA also proposed the establishment, via the IPE, of a single agency with responsibility for managing all water supply and demand management functions within the Integrated Water Supply Scheme (**IWSS**).[51]

The ERA considers that it may be timely to consider this issue within the context of the present Inquiry.

8.3.1.1 *Questions for Interested Parties*

In preparing your response, you may wish to address the questions provided in the box below.

The questions cover a range of issues that will be considered by the ERA in conducting this Inquiry and are intended to assist you in developing a constructive response.

1. Are there any significant benefits to the current system, where water supply and demand responsibilities are dispersed between the Water Corporation, the Department of Water, and Government Ministers? Could these functions be better managed?
2. What are the costs and benefits of implementing water restrictions? Are there alternative approaches to maintaining security of water supply that may be more efficient or effective?
3. Are you aware of any other opportunities for reform of the State's urban water sector? If so, what are the likely costs and benefits of this reform?

8.4 General Government Infrastructure

8.4.1 Infrastructure Planning

8.4.1.1 *Background*

Responsibility for the State's infrastructure planning is shared amongst a large number of Departments and Agencies. These include the Department of Transport and the Department of Planning. In addition, the Department of Treasury is responsible for formulating policies and guidelines to improve asset investment planning and management across the Western Australian public sector.[52] Departments and State-owned companies dealing in specific public utilities are generally responsible for infrastructure that relates to the service they provide (for example, the Department of Water and Water Corporation manage most water and wastewater infrastructure in the State.) A more comprehensive list of organisations responsible for infrastructure planning and management in the State is provided at the end of this Chapter.

The Government takes a region-specific approach to infrastructure planning and delivery outside of the metropolitan areas, with the Department of Planning managing projects such as the Pilbara Regional Planning and Infrastructure Framework, and Mid West Regional Planning and Infrastructure Framework.

[51] These functions are currently dispersed between the Water Corporation, the Department of Water and Government Ministers.

[52] See the Department of Treasury's Strategic Asset Management Framework for further information.

Planning for infrastructure in Western Australia has undergone several rounds of reform. There has long been concern at the lack of proper documentation and planning that sits behind infrastructure investments[53]. The Government's *Strategic Asset Management Framework* (**SAMF**) is intended to provide a guide to agencies for rigorous analysis and documentation of all large investment proposals put to Cabinet.

In reality there have always been a number of projects that bypass the proper planning and document processes by being rushed through Cabinet, as a priority. The recommendations of the Economic Audit Committee around fast-tracked projects were an attempt to impose planning disciplines on these projects. However, any process for asset investment is only effective as long as it is followed consistently. The Economic Audit Committee made recommendations around fast-tracked projects and impose a consistent planning discipline on projects, including provision of greater resources to analyse projects in a shorter timeframe and full disclosure of all risks to Government.[54]

8.4.1.2 *Submissions*

The Chamber of Commerce and Industry noted that, historically, Western Australia has lacked long term infrastructure planning and prioritisation, citing the lack of prioritisation as a factor in the State being overlooked for funding from Infrastructure Australia. It noted that there is no clear prioritisation framework governing the development of infrastructure in the State, and that many projects are undertaken without undergoing a thorough Cost Benefit Analysis.

Likewise, the Mannkal Economic Education Foundation raised concerns regarding a lack of accountability around the delivery of major infrastructure projects in Western Australia.

8.4.1.3 *Key Issues*

Optimising Infrastructure Investment and Delivery

The infrastructure required to deliver public services should be delivered in an economically efficient manner, that is, in a way that maximises value for the community. This requires consideration of the timing and location of infrastructure investment, and the quality of the investment opportunities available. A number of key factors contribute to optimal infrastructure delivery, including:

- robust scoping, timing, prioritisation, and budgeting of projects;
- high quality analysis in the planning phase;
- effective management to ensure that projects fall within the scope, timing, and budget requirements established during the planning stage;
- strategic oversight, where different types of infrastructure are managed by different agencies, to ensure that available funding is directed towards the most advantageous projects[55]; and

[53] See for example Economic Audit Committee (2009) *Putting the Public First – Final Report* pp.79-116, Office of the Auditor General (2010) *Performance Examination Fiona Stanley Hospital* and other audits, Infrastructure Australia (2011) *Communicating the Imperative for Action – A report to COAG* plus other publications.

[54] Economic Audit Committee, 2009, *Putting the Public First –Final Report: Recommendation 20,* pg.99.

[55] This point is well-addressed by the use of approaches such as Options Analysis, where alternatives are proposed and analysed, both against one another, and against a default, 'do nothing' case. The Department of Treasury has recently included Options Analysis in its Strategic Asset Management Framework guidelines.

- establishment of mechanisms to prevent projects from being inappropriately 'fast-tracked' (particularly where there is an incentive to fast-track a project for political rather than economic reasons).

Regional Infrastructure Delivery

A significant aspect of infrastructure planning and prioritisation in Western Australia is the allocation of State funding into the Royalties for Regions programme. Since its establishment in 2008, the programme has directed 25 per cent of mining and onshore petroleum royalties into infrastructure projects in regional Western Australia.

The programme has now been in place for five years, which provides an opportunity to make an assessment of the way in which funds have been allocated and investments planned and prioritised. This will enable an assessment of the efficiency and effectiveness of the programme, and a consideration of whether alternative models might yield greater net benefits in terms of regional service delivery.

8.4.1.4 *ERA's Approach*

The ERA will consider any opportunities identified that may lead to improvements in the planning, prioritisation, or delivery of public infrastructure, and will recommend any opportunities that are practical to implement and are likely to deliver a significant net benefit. The ERA will also consider recommending a separate review of more complex issues, where appropriate.

8.4.1.5 *Questions for Interested Parties*

In preparing your response, you may wish to address a number of the questions provided in the box below.

The questions cover a range of issues that will be considered by the ERA in conducting this Inquiry and are intended to assist you in developing a constructive response.

1. Has the State's process for project prioritisation resulted in the optimal provision of infrastructure? In particular:
   a) Is the Strategic Asset Management Framework (**SAMF**) a robust system, and does it effectively ensure that the State's infrastructure priorities are well developed and implemented efficiently?
      i. If not, how can the process be reformed, and what are the costs and benefits of this approach?
   b) How might State Government investment planning strategy in Western Australia be improved?
2. Is State infrastructure planning consistent with national initiatives, and is Western Australia maximising the amount of funding available through Commonwealth sources via participation in the various national initiatives?
3. Should Western Australia establish a single State infrastructure fund similar to Infrastructure Australia, (such as recently recommended in Queensland by the Independent Commission of Audit into Queensland Finances) to consolidate State infrastructure funding and assessment?

4. What is the best system to plan and provide infrastructure to regional and remote areas of the State?

8.4.2 Funding and Utilisation of Infrastructure

The infrastructure investments made by the State Government are constrained by the funding available within the State's fiscal strategy. One approach to managing this constraint is to improve the way in which potential projects are assessed and prioritised, as discussed above. However, improvements in infrastructure delivery can also be made by finding more efficient or innovative ways to fund projects; this includes charging users and better utilisation of assets to increase revenue opportunities.

8.4.2.1 *Submissions*

Underutilised Infrastructure

The Australian Council for Private Education and Training proposed that the Government allow private users to rent public training infrastructure (for example, TAFE facilities) where the infrastructure is not fully utilised.

Time of use charges

The CEC proposed that the roll-out of smart meters across Western Australia be prioritised, allowing all consumers to participate in demand side measures, and the introduction of incentives for 'early adopters' of time-of-use pricing. The CEC noted that it would be inappropriate to compulsorily move solar customers to time-of-use tariffs ahead of similar moves for all electricity customers.

8.4.2.2 *Key Issues*

Funding of Infrastructure

As noted above, Government provision of infrastructure has been divided into two categories:

- Infrastructure, usually provided by GTEs, where the Government aims to recoup the cost of the infrastructure over time. Examples of full cost recovery are the provision of port and water infrastructure, while public transport is an example of a business where partial cost recovery is the Government's policy.

- Infrastructure, provided directly by Government Departments for which no usage charge is levied. Examples of such infrastructure are roads and nature reserves. These assets have historically been provided by Government and funded by general taxation revenue because of the public-good benefits of such infrastructure, where:

  - use of the good is referred to as non-excludable. For example, it has historically been difficult to exclude people from using public roads, whether they are willing to pay or not; and

  - they exhibit 'non-rivalrous' consumption, where one person using the good has no impact on whether other people can consume it.

Public goods are subject to the free rider problem, where people know they can use the good without paying, leading to an under-funding of the asset by the market. The solution has been for Government to provide the asset at no charge.

The downsides to governments providing the asset for no charge have been:

- difficulty in estimating demand; and

- people who would not be willing to pay for their use of the asset cause queues (hospital emergency departments) or congestion (freeways).

However, some goods that have traditionally been difficult for the Government to collect payment for, can now be provided by the private sector or the Government on a user-pays basis. For example, technological change has allowed for cost effective electronic mechanisms for collecting road tolls.

The most commonly cited example of pay-for-use infrastructure is toll roads, which are now common in eastern Australia. Charging for this infrastructure allows Governments to either provide more infrastructure, lower taxes or run a more conservative fiscal strategy.

The ERA intends to further examine user-pays infrastructure in its Draft Report and seeks submissions on the issue.

Collaboration with the Private Sector

Public funding but private provision of infrastructure is often referred to as a Public Private Partnership (**PPP**). In such cases, while the Government funds the project, it will enter into a long term contract with a private sector partner to deliver infrastructure and related services, in support of Government's relevant service objectives. The private sector partner will typically be responsible for the construction, maintenance and performance of the infrastructure on a whole-of-life basis. PPP projects cover both economic and social infrastructure and typically include both an upfront capital component and an on-going operational/service delivery component.

The principal features of a PPP are:

- provision of a service involving the creation of an asset, including private sector design, construction, financing, maintenance and delivery of ancillary services for a specific period;

- a contribution by Government through land, capital works, risk sharing, revenue diversion, purchase of the agreed services or other supporting mechanisms; and

- the private sector receiving payments from Government (or users of economic infrastructure), once operation of the infrastructure has commenced and contingent on the private sector's performance in supplying the services.

Recent examples where PPPs have been chosen as the preferred procurement method include:

- Midland Public Hospital Project - private sector is to design, build, operate and maintain the new 300-bed Midland Public Hospital, with public health services purchased from the operator;

- QEII Medical Centre Car Parking Project – private sector to build, own, operate, and transfer (**BOOT**) car parking facilities for the health precinct, with costs recouped fully by user-charging; and

- Eastern Goldfields Regional Prison Redevelopment Project – private sector to build, finance and maintain new 350-bed custodial facility, whilst the Department of Corrective Services retains responsibility for the delivery of custodial services.

Time-of-Use Charging

For assets on which the Government levies a charge (for example, electricity) or on which it could levy a charge (roads), it can choose to levy a constant charge at all times or vary the charge according to the time of consumption. The reason that it may wish to vary the charge is that as congestion increases, the price increases to discourage usage by consumers who value it least.

The major reason that the cost of providing a service differs for different times is because there are "peak" periods of consumption. Examples of peak periods include:

- electricity usage: although peak demand occurs for only a very short period of each day, generation facilities and network infrastructure needs to be built to meet it, plus a substantial generation buffer to provide additional capacity for unforeseen circumstances; and

- road-user charges: demand growth, limited new major freeway routes and an absence of usage charges have led to substantial congestion on Perth's major roads during peak periods. Most importantly, when people choose to use the road in peak periods they do not bear the additional cost that they impose on other people through congestion.

It is agreed by most urban economists that the best policy for dealing with traffic congestion is some form of congestion pricing.[56] One solution is to implement time-of-use charging for assets that face peak-period constraints. Offpeak congestion charges would be minimal, as congestion is not a major problem at all times during the day.

An alternative to this is to levy a fixed fee for using major city roads, regardless of the time they are used. This is referred to as a simple congestion charge.

Another potential reform could be time-of-use electricity charges for residential and small business users (as happens with large customers). Further benefits could accrue to consumers through lower prices due to reduced future expenditure on maintenance and upgrade of assets.

While such charges are sometimes perceived as a 'revenue grab' by the Government, the major aim is to change consumer behaviour. In addition, a congestion charge, which encourages more efficient use of public roads, could be used to offset other motoring taxes that distort consumer behaviour.

The ERA intends to examine both congestion and time-of-use charging for road users, and time-of-use charging for electricity users, and welcomes submissions on these issues.

[56] Small and Gomez-Ibañez, 1998, *Road pricing for congestion management: the transition from theory to policy*.

Identifying Underutilised Infrastructure

Another potentially significant productivity-enhancing initiative is the identification of Government assets that are under-utilised and can be made to work harder.

The Queensland Commission of Audit *Final Report – February 2013* recommended that asset ownership be separated from Queensland Technical and Further Education (**TAFE**) and transferred to a commercial entity, with the objectives of rationalising the asset base, facilitating third party access and improving asset utilisation.

This initiative of setting up an arm's length entity responsible for owning and managing major infrastructure assets, such as property, can result in more efficient outcomes because the management of significant but unrelated assets have been effectively outsourced to a entity specifically suited to the task. This frees up the core business to focus on the key strategic and management issues that are central to the success of the organisation.

As an example, separation of the ownership of TAFE's classrooms could allow the Department of Training and Workforce Development to focus on its core service of delivering educational programs, and allow private sector innovation into the unrelated area of management of the properties from which the service is delivered. This would enhance transparency of the stand-alone value of the assets and encourage a governance structure in which efficiencies could be identified in the maintenance, utilisation and strategic planning for property holdings as a whole.

8.4.2.3 *ERA's Approach*

The ERA will consider any opportunities identified that may lead to more efficient utilisation, funding and pricing of public infrastructure, and will recommend any that are practical to implement and are likely to deliver a significant net benefit. The ERA will also consider recommending a separate review of more complex issues where appropriate.

8.4.2.4 *Questions for Interested Parties*

In preparing your response, you may wish to address a number of the questions provided in the box below.

The questions cover a range of issues that will be considered by the ERA in conducting this Inquiry and are intended to assist you in developing a constructive response.

1. Are sufficient opportunities being identified for private sector participation and involvement in the provision of infrastructure? If not, what other opportunities could be provided and what are the costs and benefits associated with each approach?
2. In what circumstances should infrastructure costs be recovered through the application of user charges?
   a) If so, what are the costs and benefits of employing this approach?
3. What circumstances would implementing time-of-use pricing for Government assets be appropriate in order to enable greater use of infrastructure and reduce peak-period costs? This might include:
   - a peak-period road user charge for major entry points into the city;

- a uniform road user charge for major entry points into the city that is levied on all users regardless of the time of day;

- off-peak leasing of Government assets to the private sector, such as sharing medical facilities or renting empty classrooms to private educators or day-care facilities.

8.5 Further Resources

If you are preparing a submission that relates to infrastructure planning or funding issues, you may find the following resources useful:

Department of Transport

Department of Planning

Regional and local planning schemes in Western Australia

Strategic Asset Management Framework

2013/14 State Budget Papers

Infrastructure Australia: Publications

Royalties for Regions

Department of Local Government and Communities: Integrated Planning

Public Infrastructure Financing: An International Perspective (Productivity Commission, 2009)

9 Taxation and Government Revenue

9.1 Principle

Principle: The Government should identify and implement efficient and practical taxes, fees, and charges when collecting the revenue it requires to operate.

9.2 Introduction

Taxation is a key Government policy instrument. It is the primary source of revenue for the Government and the way in which it is levied has significant implications throughout the economy. While necessary, taxes impose real costs on society and good taxation policy seeks to minimise those costs.

A number of recent reports have been published that address State taxation.[57] The ERA has reviewed these reports and others, with the aim of determining an appropriate framework within which taxation in Western Australia should be considered, and generating discussion on State taxes which are not supported by the framework.

In its 1996 stock take of progress on microeconomic reform, the Productivity Commission conducted an assessment of the entire tax regime in Australia, including the States and Territories.[58] Much of the framework used in that report remains directly relevant to an analysis of the tax regime in Western Australia today. Accordingly, the ERA has appropriated the framework for this Discussion Paper.

At a high level, the Productivity Commission stated that taxation structures are usually evaluated against criteria relating to efficiency, equity and simplicity. In broad terms:

- an efficient tax regime minimises distortions to pre-tax patterns of supply and demand;
- an equitable tax spreads the burden of the tax 'fairly' over all taxpayers. This is generally recognised as requiring that similar treatment be afforded taxpayers in similar economic circumstances (horizontal equity), and that taxpayers who are financially better off pay a greater share of the tax burden (vertical equity); and
- a simple tax is one which is easily understood and applied. As a consequence, administrative and compliance costs are likely to be low.

In addition, the Productivity Commission stated that a number of subsidiary criteria are often applied. For example, tax systems should have a high degree of certainty and stability, and be designed to minimise the opportunity for avoidance and evasion.

Analysis of taxation in this section focuses on the efficiency and simplicity of the tax system in Western Australia.

[57] Including Government reviews in Western Australia (2007), Australian Capital Territory (2012) and New South Wales (2008) as well as reviews by the Productivity Commission (1996) and a federal review of Australia's tax system (2010).

[58] Productivity Commission, 1996, *Stocktake of Progress in Microeconomic Reform*.

Table 2 Sources of State Public Sector Taxation Revenue[59] ($m)

	WA	NSW	VIC	QLD	SA	TAS	NT	ACT	All States
TAXATION REVENUE (2011/12)									
Payroll Tax	3,092	6,728	4,696	3,462	1,010	304	171	316	19,778
Land Tax	548	2,350	1,401	1,013	588	88	0	115	6,103
Transfer Duty (Conveyancing)	1,340	3,764	3,379	2,023	683	136	93	239	11,657
Tax on Insurance	508	2,053	1,652	610	399	70	35	66	5,394
Tax on Gambling	215	1,815	1,731	998	411	94	53	53	5,370
Motor Vehicle Taxes	1,019	2,558	1,590	1,897	509	139	50	122	7,884
Other	330	1,405	578	605	253	57	0	272	3500
Total Taxation Revenue	**7,052**	**20,673**	**15,027**	**10,608**	**3,853**	**888**	**402**	**1,183**	**59,686**

Source: Australian Bureau of Statistics (5506.0)

Table 2 above summarises the main areas of taxation revenue for all States and Territories in Australia. The main areas of taxation revenue in Western Australia are:

- Payroll: payroll tax (44 per cent in 2011/12);
- Land: land tax and transfer duty (27 per cent);
- Financial transactions: insurance duty (7 per cent); and
- Motor vehicles: registration fees and drivers licences (14 per cent).

The most notable difference between the composition of Western Australia's tax revenue and those of most other States and Territories is the proportion of tax revenue that is derived from gambling, with the other exception being the ACT. The remaining jurisdictions derive between 9 per cent and 13 per cent of their revenues from taxes on gambling, whereas Western Australia and the ACT derive 3 per cent and 4 per cent respectively.

9.3 Efficiency

The efficiency criterion assesses the extent to which a tax changes the welfare of the community by reallocating resources. If resources are diverted into activities (including avoidance or enforcement) that are less highly valued from a state perspective, then the community is likely to be worse off. At a high level, the less a tax induces changes in behaviour, the more efficient it is likely to be. Minimising changes in behaviour is not always a sign of an efficient tax. In circumstances where externalities[60] are created, a tax can be used to change behaviour to achieve more efficient outcomes.[61]

[59] Table 2 does not include mineral royalties.

[60] An externality is a cost or benefit that results from an activity or transaction and that affects an otherwise uninvolved party who did not choose to incur that cost or benefit, such as the health implications of smoking (cost) or a vaccination (benefit).

[61] Productivity Commission, 1998, *Directions for State Tax Reform*.

In general, the efficiency loss of a tax will be bigger where:

- Demand and supply are more sensitive to price changes. The more sensitive a customer/business is to price changes, the more likely they are to substitute away from the taxed (higher priced) activity and the greater the distortion that results from resources shifting out of their preferred, or most valued, use.

- It is easier to relocate the transaction being taxed to a jurisdiction that offers lower taxation. The mobility of the tax base within Australian States (e.g. where to locate a company) raises additional issues because a tax that may be a relatively inefficient way for an individual State to raise revenue may ultimately be the most efficient way to raise revenue, were all States to introduce the tax in a coordinated fashion. This would remove, or at least minimise the opportunities for avoiding the tax.

- Tax rates are high. Bird and Zolt (2003) state that tax rates should be set as low as possible because the efficiency cost of taxes arises from their effect on relative prices, and the size of this effect is directly related to the tax rate. In particular, the authors state that the distortionary effect of taxes generally does not increase linearly, as the tax rate increases. Rather, efficiency costs increase proportionally to the square of the tax rate. For instance, doubling the rate of a tax creates a fourfold increase in its efficiency costs. Therefore, it is more efficient to impose a single tax rate on a broad base rather than dividing that base into sections and imposing unique tax rates on each section.[62] The Productivity Commission has expressed a similar view.[63]

Designing a tax system around these principles is intended to minimise efficiency loss.

9.4 Simplicity

It is often claimed that taxes should be as simple as possible. This is because simple taxes are often easier and cheaper for taxpayers to pay the correct amount of tax owing, and they have low compliance and administration costs, making it easier for the Government to collect the revenue owed.[64]

Tax compliance costs are those costs that are "incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax".[65] These include the labour costs associated with meeting tax obligations (for example, filling out tax returns) and the cost of hiring tax professionals.

Allers (1994) defines administrative costs as "costs incurred by (mainly) public sector agents in order to administer the tax-benefit system".[66] This primarily consists of the costs associated with running and maintaining the tax system, and includes such things as public education on tax issues, processing tax returns, conducting tax assessments and collecting taxes.

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[62] Bird and Zolt, 2003, Introduction to Tax Policy Design and Development, Page 15.

[63] Productivity Commission, 1998, *Direction for State Tax Reform: Staff Research Paper,* page 21.

[64] Productivity Commission, 1996, *Stocktake of progress in microeconomic reform*.

[65] Sandford, C. Godwin, M. and Hardwick, P., 1989, *Administrative and Compliance Costs of Taxation*, Bath: Fiscal Publications, page 10.

[66] Allers, M., 1994, *Administrative and Compliance Costs of Taxation and Public Transfers in the Netherlands*, Groningen: Wolters-Noordhoff, Page 19.

Many of these costs are fixed and do not vary with the number of taxpayers or the amount of revenue paid, and there are likely be economies of scale in tax collection.

9.5 Submissions

Chamber of Commerce and Industry Western Australia (CCI)

The CCI considers that reform is needed to ensure the tax system has minimal impact on business and individuals, assists competition, and promotes employment, investment and economic growth. The CCI states that tax reform will also provide the State Government with a more secure and predictable revenue base and should seek to reduce the overall size of the tax burden faced by the private sector, so that as much of the State's scarce wealth is put to use by the private sector.

The CCI submitted the following reform recommendations:

- determine whether efficiency enhancements can be made to the State's transfer duty regime;
- incorporate the Metropolitan Regional Improvement Tax into the broader land tax base;
- simplify the land tax scale and adopt a "smoothing" approach to determine land values for land tax purposes;
- abolish the Perth parking levy;
- increase the competitiveness of the payroll tax with the long term objective of removing payroll taxes entirely; and
- remove transfer duties on residential properties.

Chamber of Minerals and Energy Western Australia (**CME**)

The CME encourages the Government to review "dead weight" fees and charges (such as stamp duty or payroll tax) to assess their impact on efficiency in revenue collection for the State, and to review the State tax system to ensure that broadly accepted tax principles of simplicity, predictability, equity and efficiency are maintained. The CME considers that it is critical that Western Australian taxation and imposed costs are internationally competitive because Western Australian resource companies compete on an international level with both established and emerging markets for capital investment.

The CME makes the following recommendations related to imposed costs and charges:

- royalty rates should be kept within the principle of returning to the state 10 per cent of mine head value;
- review taxes and imposed costs in an international context to determine streamlined methods of implementing charges or fees; and
- review state taxes and charges to identify and remove inefficient taxes that do not conform to basic good tax policy.

9.6 Potential Sources of Tax Efficiency Improvement in Western Australia

Below, the ERA outlines three taxes[67] (of varying significance to the overall Western Australian tax revenue) that may serve to increase the efficiency of Western Australia's tax system, if reformed. The ERA has considered each of these taxes in isolation and has not yet assessed the broader revenue implications of any potential changes.

The intent of this section is to highlight three specific areas in which tax efficiency could be improved and to encourage submissions on tax efficiency in Western Australia, either on the areas discussed, or relating to any other areas where tax efficiency in Western Australia might be improved. The ERA also seeks comments on the likely revenue implications of any rebalancing of the Western Australian tax framework.

Transfer Duty

Transfer duty (also known as 'stamp duty') is a tax applied to "dutiable transactions over dutiable property".[68] Dutiable transactions and property are defined by the State, the most common being the sale or gift of property (with exceptions), declarations of trust and partnership acquisitions.

Transfer duty accounted for almost 20 per cent of the State's taxation revenue in 2011/12, a significant component of this being generated by residential property sales.

Transfer duty is a simple tax that is administratively straightforward to manage. However, it is a particularly inefficient tax because it is triggered by the sale of a property and creates incentives for people to avoid engaging in the sale of a property. In other words, transfer duty changes the behaviour of both property owners and potential purchasers of property,[69] behaviour highlighted earlier in this section as indicating the presence of an inefficient tax.

In 2009 it was found that a 10 per cent increase in the level of transfer duty reduces the number of properties exchanged by 4 to 5 per cent if the duty increase is sustained over a three year period.[70]

In addition to this, transfer duty is dependent on the sale price of the property, which has the effect of taxing any improvements to the property, altering not only incentives to sell the property, but also engagement in any activity that will increase the value of the property.

Land Tax

A land tax "is annual tax based on the ownership and usage of land owned at midnight on 30 June".[71] When implemented appropriately, land tax is considered to be a relatively efficient tax because its application does not affect the way in which land is used, or how much land is used.[72]

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[67] Transfer duty, land tax, and payroll tax.

[68] See the Department of Finance website for further information on Stamp Duty.

[69] The extent to how each party's behaviours is modified depends on the degree to which each party incurs the tax liability.

[70] Leigh, A, Australian National University, 2009, *How do stamp duties affect the housing market?*.

[71] See the Department of Finance website for further information on Land Tax.

[72] Department of Treasury, 2009, *Australia's Future Tax System Review, Report to the Treasurer*, Section C2-1.

However, a number of important considerations must be taken into account to ensure efficiencies are maximised when levying a land tax. Firstly, for the tax to be efficient there must be few, if any, exceptions. One of the key factors in the efficiency of the land tax is that it is broad based. Allowing for exceptions to the tax creates incentives to avoid the tax and will ultimately change how some land is used, thus reducing the efficiency of the land tax.

Secondly, it is important for efficiency purposes, that a land tax only taxes the value of the land and not the improvements made to the property as a whole because taxing any improvements made to the property (that is, buildings and other capital) will change the manner in which some owners use their land. Because factors other than the identification of the most productive use for the land has an influence on how the land is utilised, in this case tax, the result is a loss in the efficiency of the tax.

The ERA notes that Western Australia currently levies a land tax, but there are a significant number of exemptions to the tax. The website for the Western Australian Department of Finance lists 17 exceptions that cover a large proportion of land in Western Australia, including places of primary residence and Government land.[73]

The application of a broad based land tax does have several disadvantages. Firstly, a practical challenge is that there is unlikely to be much political appetite for increasing the volume of land that is subject to a tax because people generally oppose the idea of paying more tax. Even if the tax increase is, on aggregate, offset elsewhere with an equivalent tax reduction, there will be instances where people see their tax liability increase.

The second disadvantage is that there can be a short-term revenue reduction that is caused by the change from stamp duty to a more broad based land tax due to the differences in when the two taxes are paid. This is an issue that would need to be identified and have remedies implemented before any changes are made.

Payroll Tax

The Productivity Commission defined payroll tax as "tax levied on employers based on the value of wages and certain supplements paid or payable to, or on behalf of, their employees."[74]

The ERA understands that individual states currently engage in negotiations for specific exemptions to payroll tax on a case by case basis as a means to attract businesses to the state. Little is published on specific exemptions. However, this activity appears to be less prevalent than it has been in the past, but is still retained as a practice by the Western Australian Government.

Payroll tax is often thought of as a tax on employment. Only recently the leader of the opposition in South Australia stated, when spelling out a plan to increase the payroll tax threshold in South Australia, that payroll tax is nothing more than a tax on jobs.[75] However, in the long run, the effect of a payroll tax is similar to that of income tax or a consumption tax.[76]

[73] See the Department of Finance website for further information on Land Tax Exemptions.

[74] Productivity Commission, 1999, *Payroll Tax in the Costing of Government* Services, Page V.

[75] Herald Sun Newspaper Online, 27 October 2013, *South Australian opposition pledges to cut payroll tax for more than 8000 businesses, if elected*.

[76] Provided the payroll tax has few, if any, exceptions.

This issue was identified in a review by the Independent Pricing and Regulatory Tribunal of state taxation in New South Wales, in which it was noted:

> *Some stakeholders criticise payroll tax on the grounds that it is a tax on employment and as such acts as a drag on economic activity. However, in practice, the cost of paying the tax can be passed on either to employees (through lower wages) or to consumers (through higher prices).*[77]

If the tax is passed on to employees through lower wages, it can be viewed as a tax on labour income.[78] Alternatively, if it is passed on to the consumer through higher prices, it can be viewed as a tax on the consumption of goods and services, rather than a tax on employment.

The Western Australian Department of Finance website lists all state-wide exemptions to the tax, these include: religious organisations, hospitals and schools. In addition to exemptions, rebates are levied on wages paid by small businesses and on wages paid to new indigenous employees.[79]

Exemptions have the effect of narrowing the tax base, creating a loss in efficiency because exceptions provide legitimate methods of avoiding tax and encourage business owners to structure their business in a manner that allows it to avoid the tax.

Removing, or decreasing the number of rebates and exceptions to the payroll tax will lead to greater efficiencies in the West Australian tax system.

Mineral Royalty Rates

The State Government is currently in the process of conducting a review of Western Australia's mineral royalty rates,[80] intended to examine the appropriateness of the current rates and to identify and address any anomalies identified in the royalty structure. This, in addition to the current uncertainty around the future of the Federal Mineral Resource Rent Tax (**MRRT**), means that the ERA will not be in a position to make practical recommendations until the impacts of the review on Government policy are known.

9.7 ERA's Approach

The ERA will consider the current State taxation regime in this Inquiry, and will highlight any taxes that are determined to be inefficient and might better be abolished or replaced by a more efficient charge.

[77] Independent Pricing and Regulatory Tribunal, 2007, *Review of State Taxation. Report to the Treasurer*, op. cit., p. 57.

[78] Department of Treasury of Australia, 2008, *Architecture of Australia's tax and transfer system*.

[79] Department of Finance, 2013, *Pay-roll Tax Exemptions.*

[80] Department of State Development, 2013, *Royalty Rates.*

9.8 Questions for Interested Parties

In preparing your response, you may wish to address a number of the questions provided in the box below.

The questions cover a range of issues that will be considered by the ERA in conducting this Inquiry and are intended to assist you in developing a constructive response.

1. How might broad based taxes be implemented in Western Australia so as to lead to greater efficiency than current narrower taxes?
2. What inefficiencies or other issues arise from the current system of transfer duty on residential conveyances?
3. Would broadening the land tax in order to offset a decrease in transfer duty rates result in a more efficient tax system in Western Australia?
4. Would broadening the payroll tax in order to decrease the rates of transfer duty result in a more efficient and easier to implement tax system in Western Australia?

9.9 Further Resources

If you are preparing a submission that relates to taxation, you may find the following resources useful:

Stocktake of progress in microeconomic reform, (Productivity Commission, 1996)

Directions for State Tax Reform, (Productivity Commission, 1998)

Introduction to Tax Policy Design and Development, (p3, Bird and Zolt, 2003)

State Tax Review Final Report (Department of Treasury and Finance, 2007)

Leigh, A, *How do stamp duties affect the housing market?* (Australian National University, 2009)

Buchanan, James; Wm. Craig Stubblebine (November 1962). *"Externality"*. Economica 29 (116): 371–384.

10 Government Intervention in Private Markets

10.1 Principle

Principle: The Government should focus its interventions in private markets where there is a clear net benefit to be gained over and above the operation of the private market under normal common and trade practices laws.

10.2 Reducing the Cost of Complying with Red Tape

10.2.1 Background

Very few markets, if any, have no rules. Legislation such as the *Competition and Consumer Act (2010)* and its predecessor *Trade Practices Act (1974)* enables most markets to function well, as does common law. However, not all markets function efficiently even with these rules in place, and where inefficiencies occur, there may be a case for Government intervention through regulation.

However, regulation creates its own costs, often including unintended consequences. Government needs to ensure that the benefits of regulating the market outweigh the costs caused by intervention. The costs of regulation can be borne in a range of ways and generally fall into one of the following three criteria:

- direct costs of regulatory charges, such as levies, fees and fines;
- indirect costs, being the impact that regulation has on market structures and consumption patterns as well as unintended consequences (for example, an increase in waiting times, or transition costs of people moving from one industry to another); or
- compliance costs, being the costs associated with complying with regulatory obligations (for example, the cost of hiring a consultant to perform a compliance audit).

Charges levied on regulated industries are thought to account for only a fraction of the indirect and compliance costs that are caused by regulation. Small changes in the behaviour of participants in large markets can amount to significant costs across the economy. For example, a regulation that increases the indirect costs to every West Australian by 25 cents per week, will add up to a total cost of over $32 million per year.[81] This could be the result of additional time being taken to comply with, or an indirect cost that is the result of, a new or changed regulation.

Other sections of this Discussion Paper consider specific markets and investigate whether the existing regulatory framework is the most appropriate. The intent of this section is to highlight the issues related to general compliance costs, particularly unnecessary compliance costs, and encourage submissions that identify areas where unnecessary compliance exists.

[81] The Australian Bureau of Statistics estimated Western Australia's population at 31 March 2013 to be 2,497,500 (*data set 3101.0*).

In defining an unnecessary compliance burden, the ERA has referred to the definition used by the Commonwealth Task Force on Reducing Regulatory Burden, that is: "regulatory or administrative requirements that are unwarranted, ineffective or not the most efficient option for delivering the required outcome."[82]

10.2.2 Current Reforms in Western Australia

Three significant pieces of work have been undertaken in Western Australia since 2009 that have considered the extent to which the regulatory burden placed on businesses is appropriate.

In the first piece of work, the 2009 report by the Economic Audit Committee (**EAC**),[83] the focus of the report was to provide recommendations for immediate and ongoing improvement in the outcomes achieved by the Western Australian public sector. Included in this were recommendations that focused "on removing barriers and red tape within the public service that duplicate and confuse accountability, prevent flexibility, stifle innovation and provide excuses for poor outcomes."[84] The EAC identified public sector workforce skills and capacity, systems and processes and barriers to working across organisation boundaries, as the key areas within which progress can be made.

In January 2009, the Treasurer established the Red Tape Reduction Group (**RTRG**), which reported in 2010, to identify and report on opportunities to reduce the burden of existing State regulation and red tape on business and consumers.[85]

The report contained 107 recommendations that were classified as either short; medium or long-term reform options and these options were grouped into three main categories:

- those that aim to reduce the regulatory burden by improving the performance and accountability of Government regulators;
- those that aim to maintain impetus and mechanisms for on-going red tape reduction by Government; and
- those designed to address specific areas of concern raised in the consultation process.

In addition to this, the Economic Reform Division within the Department of Finance provides advice and analysis on economic and structural reform, competition policy and regulatory reform. Included in this is a Regulatory Gatekeeping Unit (**RGU**) that administers the Regulatory Impact Assessment (**RIA**)[86] process in Western Australia, as well as assisting State Government agencies in achieving best practice in accordance with RIA requirements, and in monitoring, assessing and reporting on compliance with those requirements.

Appendix B summarises initiatives undertaken in other states that have investigated ways to reduce the cost of regulatory compliance.

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[82] Report of the Commonwealth Government, 2006, Task Force on Reducing the Regulatory Burden on Business, *Rethinking Regulation*.

[83] Economic Audit Committee, 2009, *Putting the Public First: Partnering with the Community and Business to Deliver Outcomes – Final Report*.

[84] Economic Audit Committee, 2009. *Putting the Public First: Partnering with the Community and Business to Deliver Outcomes – Final Report*, Page 137.

[85] Red Tape Reduction Group, 2010, *Reducing the Burden – Report of the Red Tape Reduction Group*.

[86] A RIS is a policy development and decision making tool that describes the issue, suggested solution and possible alternatives.

10.2.3 Submissions

Chamber of Commerce and Industry Western Australia (CCI)

The CCI notes that the report by the Red Tape Reduction Group has largely been shelved and remains a strong starting point for reform priorities.

The CCI notes that the ERA could assume the role of regulatory gate-keeping from the Western Australian Department of Finance because the ERA's independence better places it as an advisor to the Government on regulatory issues.

The CCI believes that if the ERA is to take this role, consideration should be given to the national Regulatory Impact Assessment protocols developed by the Council of Australian Government (**COAG**), as well as the Productivity Commission's report on benchmarking Australia's Regulatory Impact Assessment processes.

The CCI submits that non-complementary climate change initiatives at a State-level, that largely duplicate Federal Government policy, should be removed.

The CCI states that the current regime for food safety regulation and compliance monitoring is excessive, and does not deliver improved outcomes in terms of food safety standards. The CCI notes that food safety regulation currently occurs at all three levels of Government in Australia and that private sector organisations often also impose additional compliance requirements on food processors and submits that a lack of consistency in the interpretation of food safety regulations across Australian jurisdictions (both inter and intra) increases the costs to businesses.

The CCI believes that the information sought by audits of food safety standards that are undertaken across the three levels of Government and the private sector can result in duplicated activities of up to 80 per cent, the result being excessive reporting requirements that cause significant direct and indirect costs.

The CCI states that there is significant potential to reduce costs throughout the food supply chain and recommends that the State Government take full control of the application and monitoring of the Food Act 2008 by removing Local Government from the process.

Over the long term, the CCI believes that the State government should seek to harmonise food safety standards, and the associated compliance regime on the *Seamless National Economy* agenda, with the ultimate aim of reducing the compliance burden associated with food safety.

Chamber of Minerals and Energy (CME)

The CME submits that tenement approvals processes are complex, overly prescriptive, duplicated, cumbersome and they introduce additional cost pressures and a greater degree of uncertainty for applicants, all of which act as disincentives to exploration and development.

The CME states that the Department of Mines and Petroleum should work with other agencies to improve efficiency and eliminate duplication.

According to the CME's submission, expansion of the approvals tracking system across the Departments of Water, Environment Regulation and Environmental Protection Agency is needed to ensure that timetables are enforceable and departmental accountability is strengthened. The CME states that the 'stop the clock' mechanism creates unclear and ambiguous timelines that are not adequately explained.

Ian Hill

Mr Hill notes the Australian Government's intention to reduce the costs to business of "red and green tape" by $1 billion each year. Mr Hill suggests that this objective cannot be achieved unless there is an 'across Government' approach, which engages each of the three spheres of Government, and the business sector in a collaborative approach.

Mr Hill submits that part of this Inquiry, the ERA could suggest a structure that would facilitate an approach to this exercise that is collaborative, constructive and bipartisan, rather than combative.

Master Builders Association of Western Australia (Master Builders)

Master Builders submits that the Department of Fire and Emergency Services should be provided with additional resources to address costly delays in granting approvals for building safety. Master Builders believe that the lack of resources is impeding the development of the approvals process and consideration should be given to issuing interim certificates of compliance for satisfactorily completed base building work, pending fit out work and final compliance certification.

Master Builders submits that reducing the involvement of Emergency Services in the commercial sector approvals process and the implementation of full private certification of building permit approvals, without the involvement of local authorities, would create greater efficiency in the building permit approvals process.

The national harmonisation of occupational safety and health legislation will create additional costs to Western Australia, according to Master Builders. Master Builders submits that Victoria conducted a Regulatory Impact Statement (**RIS**)[87] assessing the costs of the legislation for the State and found that harmonisation will result in net costs. Master Builders submits that the same outcome will occur in Western Australia. Master Builders states that it understands that the West Australian Government conducted a similar RIS, but that it has not been published.

Small Business Development Corporation (SBDC)

The SBDC submits that small businesses are disproportionally affected by government regulation due to their differing levels of resources.

The SBDC submits that small businesses account for up to 95 per cent of all businesses in Western Australia and employ 47.2 per cent of the workforce across the nation, and even a slight improvement in their productivity could lead to large gains in efficiency and performance in the entire economy.

[87] The primary role of the RIS is to improve government decision-making processes by ensuring that all relevant information is presented to the decision maker when a policy decision is being made.

The SBDC raised four activities that could be undertaken to reduce red tape, including:

- Reducing existing regulation. Primary to this, the SBDC submits that a review of the Red Tape Reduction Group's recommendations should be conducted and recommendations that have not been implemented should be assessed to identify the recommendations that would achieve significant benefits for low cost and effort if implemented.

- Ensuring that new regulations are appropriate and efficient by reviewing the processes of the Regulatory Gate Keeping Unit with the view to tightening provisions and enhance its role, including the assessment process, and having the Regulatory Gate Keeping Unit review local laws.

- Streamlining existing compliance processes to minimise duplication and unnecessary burden on small business, with particular emphasis on documentation, the interface between Government and businesses, assessment processes and educational material.

- Transforming the culture of Government agencies conducting compliance to a customer focused model, and by having regulators interact with small businesses in a different manner to which they interact with large businesses, by taking into account the inherent resource constraints faced by small businesses.

10.2.4 Other Considerations

The scope of activity described in the section above indicates that a significant amount of work has been conducted into pinpointing areas in which an unnecessary compliance burden exists and developing recommendations to reduce the burden.

The Report of the Red Tape Reduction Group has stated that a major issue for the Western Australian Government is to maintain the momentum in terms of removing unnecessary compliance burden in Western Australia that was generated by its process.[88]

10.2.5 ERA's Approach

The ERA considers that, based on the submissions received, and on previous work in this area, there is likely to be a material benefit for Western Australia in implementing a framework that prevents new regulations that impose an unnecessary regulatory burden from being put in place.

In its Draft Report, the ERA will consider the benefits and costs of strengthening the framework within which RISs are conducted by the Economic Reform Division in the Department of Finance, giving particular attention to the potential value of requiring all legislation to be subjected to this process before being debated by Parliament. Accompanying this, the ERA will also consider the merits of requiring a periodic review of Western Australian legislation to identify competition restrictions that are not in the public interest.

Finally, the ERA intends to review the recommendations made by the Red Tape Reduction Group and similar reviews that are still to be implemented, as well as any other issues, such as food safety standards, identified in submissions.

[88] Red Tape Reduction Group, 2010, *Reducing the Burden – Report of the Red Tape Reduction Group*. Page 5.

10.2.6 Questions for Interested Parties

In preparing your response, you may wish to address a number of the questions provided in the box below.

1. Which outstanding recommendations of the 2009 *Reducing the Burden* report are the most important ones yet to be implemented?
2. What other major red tape problems not addressed in the *Reducing the Burden* report need to be addressed?
3. What process improvements could be made to ensure that Government red tape is kept to a minimum?

10.2.7 Further Resources

If you are preparing a submission in relation to compliance issues, you may find the following resources useful:

Reducing the Burden – Report of the Red Tape Reduction Group (Department of Treasury, 2009)

Putting the Public First: Partnering with the Community and Business to Deliver Outcomes – Final Report, (Economic Audit Committee, Department of the Premier and Cabinet, 2009)

10.3 Legislation as a Constraint on Competition

10.3.1 Introduction

Competition is a powerful force that encourages innovation, choice, efficiency and value for consumers. This is a fundamental underpinning of market economies and the protection of competition has been a central reason behind the establishment of competition authorities worldwide.

On its website the Australian Competition and Consumer Commission (**ACCC**), Australia's national competition authority, summarises its role as:[89]

> "Competitive markets increase the prosperity and welfare of Australian consumers. Our role is to protect, strengthen and supplement the way competition works in Australian markets and industries to improve the efficiency of the economy and to increase the welfare of Australians.
>
> This means we will take action where this improves consumer welfare, protects competition or stops conduct that is anti-competitive or harmful to consumers, and promotes the proper functioning of Australian markets."

In instances where a business has been found by the ACCC to have acted in an anti-competitive manner, the ACCC has a number of tools at its disposal that it can use to remedy the situation; these include financial penalties, requirements for the business to stop

[89] Australian Competition & Consumer Commission, *About the ACCC*.

or change its behaviour, or requirements for the business to modify the way it conducts business.

However, in some circumstances, it is not the behaviour of businesses in the market that is restricting competition, but the legal underpinning of the market itself. For example, import duties shield domestic producers from the full extent of international competitive forces, allowing inefficient domestic producers to remain profitable, to the detriment of domestic consumers.

10.3.2 National Competition Policy

Legislation that had the effect of restricting competition was identified as a concern in the early 1990's, during which an independent inquiry into national competition policy for Australia (the **Hilmer Report**) was undertaken.

The Hilmer Report made recommendations in six policy areas[90], with one of those policy areas focused on legislative constraints on competition.

In 1995, Australia's governments, acting on the Hilmer Report recommendations, agreed to the National Competition Policy and Related Reforms (**NCP**). Included in the NCP was the Competition Principles Agreement (**CPA**), which set out the principles agreed by State Governments for implementing the NCP, including principles on:

- price oversight for government business enterprises;
- structural reform of public monopolies;
- review and reform of restrictive legislation;
- competitive neutrality and third party access to infrastructure services; and
- the application of these principles to local government.

The CPA obliged Governments to review and, where appropriate, reform legislation that restricted competition, unless the benefits of the restriction to the community as a whole outweighed the costs and the objective of the law could be achieved only by restricting competition.

The agreement to implement the NCP included three tranches of payments from the Australian Government to the states and territories where they achieved satisfactory progress against their reform commitments.

The payments were the means by which the gains from reform were distributed throughout the community. The payments were recognition of the fact that, although the states and territories were responsible for significant elements of the NCP, a large proportion of the direct financial return accrued to the Australian Government via increases in taxation revenue that flow from greater economic activity.

In circumstances where the National Competition Council (**NCC**) considered that a government had not satisfactorily met its reform commitments or had not indicated a preparedness to address non-compliance, it recommended that the Australian Treasurer impose a permanent payments deduction.

[90] The other policy areas were: competitive conduct rules, structural reform of public monopolies, access to essential facilities, monopoly pricing and competitive neutrality.

Before each tranche of payments was authorised, the NCC assessed the progress made by each of the states and territories, against their obligations. The last of these assessments was conducted in 2005[91] and it is the findings in this last assessment, along with submissions on the Issues Paper,[92] that are the primary sources used by the ERA to identify circumstances in which legislation that restricts competition may still be in force in Western Australia.[93]

As part of its assessment, the NCC identified a range of areas in which Western Australia was not compliant with the NCP. In total, the NCC assessed that Western Australia had not completed reform on thirty-two per cent of the legislative stock identified as containing anti-competitive conditions; this consisted of forty-five per cent of its priority legislation and twenty-three per cent of its non-priority legislation.[94] In particular, Western Australia received deductions to its competition payments for noncompliance relating to the regulation of:

- retail trading hours;
- liquor sales; and
- potato marketing.

In addition to these, the NCC assessment identified areas in which the Western Australian Government had made poor progress in addressing its outstanding legislation review and reform items. As a result of this, the Australian Government imposed a 15 per cent pool suspension of the state's 2004/05 competition payments.

10.3.3 Areas of Interest

In addition to its own independent analysis of the areas in which legislation acts as a material constraint on competition, the ERA has also identified similar issues that were raised in submissions. This section outlines the areas in which the ERA considers that legislation is most obviously restricting competition.

10.3.3.1 *Potatoes*

The growing and marketing of potatoes in Western Australia are controlled under the *Marketing of Potatoes Act 1946*. The Act prohibits the production of potatoes in Western Australia for fresh domestic sale, unless the production has been licensed by the Potato Marketing Corporation. These licences restrict the volume of land available for growing potatoes for fresh local consumption but not for processing or export. The Potato Marketing Corporation sets wholesale prices and pools sale proceeds, paying growers an average return after deducting its own costs. Grower payments are reflected by the grading and volume of the potatoes grown, but not the variety. Western Australia is the only State that operates potato marketing regulation.

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[91] National Competition Council, 2005, *Assessment of Governments' Progress in Implementing the National Competition Policy and related reforms: 2005*.

[92] Economic Regulation Authority, 2013, *Inquiry into Microeconomic Reform in Western Australia*: Issues Paper.

[93] This section is not comprehensive, and does not cover all issues raised by the NCC in its assessment of Governments' progress in implementing the NCP in 2005.

[94] National Competition Council, 2005, *Assessment of Governments' Progress in Implementing the National Competition Policy and related reforms: 2005*., Page xxix.

As part of the NCP reforms, a review of the legislation was conducted in December 2002 by the then Western Australian Department of Agriculture. The review recommended that the Government maintain the current regulated supply system, after finding a lack of evidence that any significant changes would result in an improvement in the public interest. The review also recommended that the Government investigate ways to improve the operation of the Act.

In 2003, the State Government confirmed that it would retain the regulation of supply management and price fixing. However, following advice from an advisory group in July 2004, the then Minister for Agriculture stated that the Government would introduce amendments that:

- change the basis of supply restrictions from licensed growing area to quantity;
- introduce incentives for growers to supply varieties preferred by consumers;
- move the responsibility for setting aggregate supply and fixing wholesale prices from the minister to the Potato Marketing Corporation; and
- transfer the functions of promotion, marketing and exporting to a grower owned entity.

The Minister stated that the changes would improve the effectiveness of the *Marketing of Potatoes Act 1946,* without materially altering the regulation of domestic supply of potatoes, and that the continued statutory marketing of potatoes would provide industry stability in regional areas.

These changes include the Potato Marketing Corporation no longer participating in the export market, and the Potato Producers' Committee taking over the marketing promotion functions under the *Agricultural Produce Commission Act 1988*.

10.3.3.1.1 Submissions

Chamber of Commerce and Industry (CCI)

CCI advocated for removing Western Australia's potato marketing regulations as it restricts competition. CCI believes competition is restricted by allowing the State Government to restrict the availability of land for growing potatoes, and an ability to fix the wholesale price of such potatoes, while requiring the potatoes be sold to the Government's statutory marketing authority.

10.3.3.1.2 ERA Analysis

The *Marketing of Potatoes Act 1946* clearly restricts competition in that it prohibits unlicensed growers from growing potatoes for fresh domestic sale in Western Australia. Therefore, using the framework implemented by the NCC, it must be shown that restricting the supply and pricing of table potatoes brings benefits to the community that outweigh the costs, and that the objectives of the legislation can be achieved only by restricting competition.

In 2002, the Western Australian Government argued that a retail price survey commissioned by the Potato Marketing Corporation shows that consumers in Western Australia enjoy cheaper potatoes than consumers in other states and, thus, that it is in the public interest for the legislative restrictions to be retained.

In response, the NCC noted that while this might be the case, a survey cannot demonstrate the counterfactual of what the market prices would be in the absence of the *Marketing of Potato Act 1946*. Nor can it demonstrate what the product quality and mix would be in the absence of restrictions.[95] The NCC noted that it is likely that there would be material changes to both the quality and variety mix in the absence of restrictions.[96] Around 83 per cent of potatoes sold in Western Australia during the 2012 growing year are made up of just four varieties,[97] up from 74 per cent in the 2011 growing year.[98]

In its final review in 2005, the NCC stated that it was not convinced that "restricting the supply and pricing of table potatoes brings benefits to the community that outweigh the costs, or that the objectives of the legislation can be achieved only by restricting competition."[99]

10.3.3.2 *Industry Licences*

Licences can largely be split into two distinct categories: occupational licences and business licences.

An occupational licence is a regulation that restricts entry to an occupation or profession to people who meet requirements stipulated by the relevant regulatory authority; for example, doctors, tradespeople and lawyers.

A business licence grants a business the right to conduct specified activities within the jurisdiction of the authority issuing the licence, for example, liquor licences and taxi licences.

Licences are established for a range of reasons. For occupational licences the primary function is as a signal of quality (that is, that the practitioner has attained a set level of education/training, such that the customer can be comfortable in the quality of service being provided). Licences also often set out minimum standards of practice, which if breached would result in the suspension or cancellation of the licence.

Business licences may be granted with the aim of addressing a particular market failure, often one caused by an externality.[100] For example, in the case of liquor licensing, one of the stated objectives of the *Liquor Control Act 1988* is to minimise harm due to the use of liquor. Effective implementation of business licensing requires a balance to be struck between implementing licence conditions that correct for the externality or establish a minimum quality for a service[101] with the barriers to competition that those licence conditions create.

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[95] For example, there may be significant differences in the cost of production of the mix potatoes grown in Western Australia and those grown elsewhere in Australia.

[96] National Competition Council, 2005, *Assessment of Governments' Progress in Implementing the National Competition Policy*, Page 14.6

[97] Potato Marketing Corporation of Western Australia, 2012, *Annual Report – Grower Report – Detailing Pool Performances*, Page 7.

[98] Potato Marketing Corporation of Western Australia, 2011, *Annual Report – Grower Report – Detailing Pool Performances*, Page 6.

[99] National Competition Council, 2005, *Assessment of Governments' Progress in Implementing the National Competition Policy*, page 14.5.

[100] A consequence of an activity that is experienced by unrelated third parties. An externality can be either positive or negative.

[101] Education and operational standards often act as proxies for quality.

10.3.3.2.1 Submissions

Licensing of Trades

Master Builders

The *Building Services (Registration) Act* states that builders outside the South West Division of Western Australia do not have to be registered as a builder or contractor. Master Builders states that this gives these builders a competitive advantage over metropolitan builders. Master Builders considers that extending the registration requirements to all builders, regardless of geographical location, would meet the "Compensation Principle"[102].

Master Builders considers that the benefits of removing the exemption would outweigh the costs and that the benefits would include better consumer protection, better public safety, improved safety standards in construction and compliance with building codes. On the other hand, Master Builders states that the costs would include additional commercial costs in seeking registration that would be passed through to construction costs for clients.

Master Builders submits that there is little, if any, benefit in moving forward under the National Occupational Licensing initiative because it is likely that the costs of implementation are likely to outweigh the benefits.

In particular, Master Builders states that one of the benefits of the scheme, greater skill mobility between states, is limited because there are only two licensed trades in the building and construction industry in Western Australia, plumbers and electricians.

Similarly to its statements regarding the licensing of builders, Master Builders sees no reason to limit the scope of application of painter registration[103] to the South West region only.

Master Builders also submits that if an extension of licensing trades is recommended, an in-depth review should be conducted that includes a RIS.

Liquor Licensing

Woolworths

Woolworths states that Western Australian liquor licensing is confusing, inconsistent and lacking in clarity. In particular, the system is time consuming, results in significant financial costs for applicants, discourages investment and inconveniences consumers.

Woolworths submits that it takes four times longer to get a liquor licence in Western Australia than in New South Wales or Victoria, which results in additional costs such as the holding costs of land and legal fees. Woolworths asserts that there should be a single body (as there is in New South Wales) or single individual (as there is in Victoria) that is responsible for liquor licensing.

In Western Australia applicants must currently go to the Director General of Racing, Gaming and Liquor, who has the authority to either determine the application or refer it to the Liquor Commission. In the event of a dispute, the State Administrative Tribunal is called on to make the final judgement.

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[102] The Compensation Principle states that an activity should be pursued if those that are made better off by an action could theoretically compensate those that are made worse off by the action.

[103] Painters are required to be registered, but not licensed as per plumbers and electricians.

Additionally, Woolworths submits that preventing non-metropolitan liquor stores from trading on Sundays provides hotel licence holders with a competitive advantage because they can sell packaged liquor on Sundays, but liquor stores cannot. Woolworths states that this reduces consumer choice.

Chamber of Commerce and Industry (CCI)

The CCI submits that the State's Liquor Laws should better recognise the needs of businesses and consumers, and remove anti-competitive provisions. The CCI notes that liquor licensing is subject to significant regulation that aims to reduce the harm associated with excessive consumption. However, it submits that the design of the *Liquor Control Act 1988* and the associated regulations do not give due regard to the interests of the hospitality and tourism industry, its desire for service to customers, and the impact licensed venues can have on the amenity and vibrancy of an area.

The CCI considers that changes should be made, in particular, to the 'public interest test' for new applications to shift the burden of proof away from the applicant and to the community that will potentially be impacted, such that it is up to the community to prove that a new licensed premise will have a negative impact. The CCI argues that the existing system produces an implicit bias against potential new entrants, promoting existing businesses and reducing competition.

WA Nightclubs Association

The WA Nightclubs Association (**WANA**) submits that the retention of staggered trading hours for licensed premises:

- reduces the exodus of patrons into the street that would occur under a uniform closing time model;
- minimises pressure on the public transport and the taxi industry; and
- acts to discourage patrons in early closing venues from continuing to consume alcohol.

For these reasons WANA submits that the blanket use of extended trading permits by hotels should be curtailed.

In addition, WANA submits that small bars are not suited to extended trading hours because their main function is to sell alcohol, whereas the main focus of nightclubs is to provide entertainment (with alcohol sales being an ancillary service).

Taxi Licences

Chamber of Commerce and Industry (CCI)

The CCI submits that the ERA should investigate deregulating the taxi industry in Western Australia. The CCI considers that the current regulation of Perth's taxi industry could be responsible for higher prices and poorer service than would otherwise be the case in a deregulated market, and is not convinced that Government should maintain its current level of intervention in the industry.

The CCI states that:

- taxi operators must recover the costs of licences from operating revenues, while high barriers to entry limit the potential for competition in the taxi industry;

- the current regulatory structure discourages the provision of a taxi service which matches variations in demand according to the time of day, week or year;

- high leasing or plate costs[104] mean that a vehicle must operate for most of the week in order to cover capital costs (that is, it is not profitable to *only* run a taxi at peak demand, even though this is the most profitable time to run a taxi if there were no license costs); and

- numeric limits on the number of taxi licences and regulated minimum hours of operation mean that additional vehicles cannot be made available at service peak demand (even if it were economic to run a peak only service) and this results in delays for customers wanting to use taxis at peak demand times and sometimes failure to get service at all.

10.3.3.2.2 ERA Analysis

Licensing of Trades

The ERA has received submissions that state that constraints on competition in this field have been created by the current trade licensing framework. In particular, the submissions noted that licensing frameworks, in their current form, have the effect of restricting the number of tradespeople working in Western Australia, leading to higher prices.

Licensing frameworks are useful for ensuring that market failures are addressed, and ensuring the quality of services rendered. However, the submissions received have raised concerns that the licensing regimes in place are overly burdensome, and have had the effect of providing licence holders with an inappropriate level of market power.

Liquor Licensing

A range of issues relating to liquor licensing were raised in submissions, including the application of the licensing framework to distinguish when different categories of businesses should be permitted to sell liquor, the inefficiency of the process of applying for a liquor licence, and the effect on competition of applying a public interest test. These issues may be reducing the efficiency of the State's liquor market.

Taxis

With regard to taxis, the key concerns raised in submissions appear to be that the current licensing framework restricts the supply of taxis, which has the result of increasing prices. Submissions stated that when coupled with the high leasing or plate costs this may have two potential effects:

- Artificially restricting taxi licences has the impact of raising taxi fares as leasing costs are a part of the model used to calculate regulated taxi fares; and

[104] Higher leasing or plate costs represents a rise in the licence cost.

- The high cost of operating a taxi may mean that it is not profitable for a taxi driver to operate only during periods of high demand because the returns of doing so will not adequately offset the costs of operation.

These issues may impact the flexibility of supply and the ability of the market to match supply with demand.

10.3.3.3 *Retail Trading Hours*

The *Retail Trading Hours Act 1987* and the *Retail Trading Hours Amendment Act 2010* apply to retail shops in Western Australia south of the 26th parallel. They set out the trading hours and rules covering various categories of retail outlets. Trading hours of restaurants, cafes and takeaway food shops are not covered by the Act.

Since the NCP assessment in 2005, a change in the regulations has permitted general retail shops in the Perth metropolitan area to trade between:[105]

- 8am-9pm on all weeknights;
- 8am-5pm on Saturdays;
- 11am and 5pm on Sundays; and
- 11am and 5pm on most public holidays, with the exception of Good Friday, Christmas Day and ANZAC Day, when they must remain closed.

In addition to general retail shops, the legislation defines two other categories of shops; small retail shops, which are allowed to open 24 hours a day, 7 days a week, and special retail shops, which may open between 6am and 11:30pm on any day of the week.

Regional areas outside of the Perth metropolitan areas are subject to the trading hours specified in their locality.

10.3.3.3.1 Submissions

Master Builders Association of Western Australia (**Master Builders**)

Master Builders submits that Western Australia's restrictive trading hours have an adverse impact on the building and construction industry and reduce the productivity and efficiency of the economy.

Master Builders highlight that under the *Retail Trading Hours Act 1987*, Masters Home Improvement (**Masters**) stores must get a certificate from the Western Australia Department of Commerce confirming that it is a "domestic development shop" in order to open during the early hours of the day that are the most convenient for the building trade to pick up supplies.

However, Master Builders submits that the list that dictates what a "domestic development shop" can sell is full of inconsistencies and anomalies. For example, the regulations allow the sale of:

- light bulbs but not the sale of light fittings;
- outdoor lighting but not indoor lighting;

[105] See the Department of Commerce website for more information on retail trading hours.

- kitchen sinks but not dishwashers; and
- wood-fired heaters but not gas heaters.

Master Builders submits that the practical effect of these regulations is that Masters stores cannot open early because they sell both light bulbs and light fittings, to the detriment of builders and tradesman, which can result in more than 50 cars waiting in the car park for stores to open. All of which reduces productivity and efficiency in the economy.

Woolworths

Woolworths submits that retail trading hours should be fully deregulated in the form described by the Productivity Commission in its inquiry into the Australian Retail Industry in 2011. The Productivity Commission highlighted that:

- online retailers are unrestricted by trading hours regulations;
- restricting trade imposes costs on retailers because their capital investment cannot fully be utilised;
- there is an inconvenience caused to consumers by imposing restrictions on their choice of when and where to shop; and
- there are costs imposed on retail employees who would prefer to work during unregulated trading hours.

Woolworths submits that it hired 700 new staff as the result of the recent Sunday trading reforms creating significant benefit to the community.

Woolworths considers the next phase of reforms should be to:

1. extend the trading hours for “General Retail Shops” within Perth Metropolitan area;
2. remedy the regulatory anomaly that currently prevents Masters Home Improvement stores from trading in line with the hours of other hardware stores;
3. introduce Sunday trading into those areas where it is still prohibited; and
4. Repeal the *Retail Trading Hours Regulations 1999*, which limits what goods can be sold in the petrol station shop at different times.

Woolworths states that the benefits to the community of deregulation include additional wages paid to employees, and increased consumer choice and convenience.

Chamber of Commerce and Industry (CCI)

According to the CCI, the legislative environment for retail trading hours sets out different categories of retail shops, which determines their trading hours. Over time there have been changes to the regulation of retail trading hours, most recently with the introduction of Sunday trading. However, the CCI notes that the incremental changes that have occurred over the years have created further distortions, particularly in relation to the types of products that can be sold on a day of the week or at a particular time of day. The CCI states that these are arbitrary restrictions on businesses ability to trade freely, and in a competitive market this stifles opportunities for growth and employment and discourages an entrepreneurial culture in Western Australia.

The CCI believes that in order to achieve the full benefits of deregulation, the remaining restrictions on trading hours and products for sale need to be removed. The CCI notes that the regulations governing restrictions could be changed at a ministerial or departmental level, and should be the priority for abolition in the short term. The CCI considers a final move to fully deregulate retail trading hours in Western Australia is overdue and necessary to ensure businesses are able to compete on a level playing field.

The Shopping Centre Council of Australia (**SCCA**)

The SCCA submits that the restrictions on trading hours in Western Australia should be removed. The SCCA refers to the Productivity Commission's Inquiry into the structure of the Australian retail industry that recommends, "retail trading hours should be fully deregulated in all states (including on public holidays)." [106]

The SCCA observed that the Northern Territory, ACT, and the area above the 26th parallel of south latitude in Western Australia do not regulate retail trading hours, and that Victoria and Tasmania are effectively deregulated for all but 2.5 days per year.

The SCCA submits that removing restrictions on trading hours would give a greater level of choice to shop owners and consumers and increase competition in the retail sector.

The Australian National Retailers Association (**ANRA**)

ANRA states that Western Australia implements one of the more complex retail trading frameworks in Australia, with multiple trading hour regimes operating across the State.

ANRA submits that regulated trading hours are detrimental to consumers' ability to choose where, when and what they want to shop. ANRA also states that regulation distorts competition because online retail shops can trade at all times and sell goods at all times. In ANRA's opinion, the regulations add unnecessary complexity and red tape.

According to ANRA, retail employees also suffer because it prevents some employees from accessing penalty rates for working on weekends and Public Holidays.

ANRA notes that the Productivity Commission has recommended fully deregulated retail trading hours across all States. The Productivity Commission's Inquiry states that the main reasons for the deregulation of retail trading hours include increased consumer welfare, reduced discrimination and greater competition, a less artificially distorted retail industry and potentially lower retail prices and higher retail employment.

ANRA considers that the expansion of Sunday trading hours in the Perth metropolitan area has increased choice for customers, increased wages and employment opportunities for staff and increased customer numbers for all retail business operators.

ANRA submits that the deregulation of trading hours would involve three key amendments to the Retail Trading Hour Act 1987:

- removal of all references to the Perth Metropolitan area so that all retailers covered by the Act are treated equally, regardless of location;

[106] Productivity Commission, 2011, *Economic Structure and Performance of the Australian Retail Industry*.

- removal of specific trading hours for all non-public-holiday weekdays and weekends; and
- retain restricted trading days of Christmas Day, Good Friday and ANZAC day morning only.

The ANRA has no objection to retaining exemptions for ‘special’ stores to remain open during the restricted trading times.

10.3.3.3.2 ERA Analysis

The placing of restrictions on trading hours may have a variety of purposes, including providing small businesses the opportunity to trade without competition from larger retailers, and reducing the need for retail employees to work outside of the ‘traditional’ working hours.

The costs of regulating trading hours are largely borne by three distinct groups: retailers, consumers and employees.

Retailers claim that they incur efficiency losses from having to close earlier than desired. These efficiency losses are incurred because the retailer pays to occupy the premises for 24 hours a day, but is unable to efficiently recoup those costs by operating during all hours that it is profitable to do so or of their choosing. In effect, there are times during which the retailer is paying to occupy its premises, but is unable to operate its retail business, which is inefficient.

Retailers may also incur efficiency losses because consumers that would purchase goods from the retailer if it were able to operate outside the legislated hours, will not necessarily choose to return to the retailer during its operating hours, but may instead elect to purchase the good or service online from a different retailer, or from a retailer that is able to open for longer periods. This is a cost to both the retailer and consumer.

In addition, the smaller window for operation forces more customers to shop at the same time, which will either result in greater congestion in shops or retailers investing in expanded capacity. If no additional capacity is made available to accommodate the additional customers, the premises may become overcrowded and slow the flow of customers through the shop, increasing the length of time customers spend in the shop. Additionally, higher footfall[107] places strains on inventory management, and increases the likelihood that customers will be unable to purchase all desired goods. These costs would be expected to result in some customers deciding to use their money for other purposes.

Alternatively, by investing in increasing the capacity of the shop to better accommodate the customer numbers, for example, by increasing the size of their premises or employing more staff, retailers will over invest in retail capacity and resources. This investment will increase the costs to the business, further exacerbating the efficiency losses that are caused by having to close at the mandated times.

For employees, the restriction of trading hours imposes costs on those who prefer to work outside of the ‘traditional’ regulated working hours. This may be due to work or leisure preferences, scheduling of childcare or other parental responsibilities, or because of the higher wage rates available for working those hours.

[107] ‘Footfall’ measures the number of people entering a shop or shopping centre in a given time period.

For consumers, restricted trading hours have an impact on consumer choice. Three factors have a material effect in this regard. Restricted shopping hours provide customers with less choice about when to go shopping, and this may result in customers being prevented from participating in activities that they value more highly than shopping. For example, a two parent family may find it more convenient for one parent to go grocery shopping after the children have gone to bed, which is not an option if the children go to bed close to or after the time supermarkets close. Alternatively, parents are forced to sacrifice other daytime activities in order to purchase their groceries.

The second factor imposing costs on consumers is the narrowing of the window within which customers may shop. Narrowing the window of available shopping hours forces more customers to shop at the same time, resulting in higher levels of congestion.

Restricting retail trading hours also limits the time available to consumers to shop around to find the best price for a good or service. This decreases the ability of consumers to make comparisons between various products or suppliers, stifles competitive pressure, and reduces the extent to which price competition can develop in the market, ultimately resulting in higher prices.

Finally, a range of idiosyncratic criteria exist that determine whether a retailer is a general, special or small retail shop. Retailer classification can result in outcomes in which competitors are subject to different hours of operation, or may result in the retailer being unable to best meet the demand of its clientele, to the detriment of robust competition.

10.3.3.4 *Domestic Gas Reservation Policy*

Government intervention in the Australian gas production market in the form of a domestic gas (**Domgas**) reservation policy has attracted support on both sides of the argument.

In Western Australia, the Domgas reservation policy aims to secure supply of gas to the Western Australia market by reserving up to 15 per cent of Western Australian gas production for domestic use. The rationale for this policy is that the gas is likely to be sold at prices below those exhibited on the global market.

Opponents of the policy state that it creates significant welfare costs. Of particular note is recent research conducted by Deloitte Access Economics (**Deloitte**) that models the economic impact of implementing a Domgas reservation policy on the east coast of Australia. Deloitte's modelling estimated that the introduction of a Domgas reservation policy would cause $6 billion in foregone GDP at 2025.[108] The figures are not attributable to the Western Australian Domgas reservation policy, but whether a similar outcome would be found if it were undertaken in the Western Australian context is a worthwhile question to ask.

The DomGas Alliance, a group of large gas consumers and supporters of the Domgas reservation policy, state that because a failure to ensure gas security will have a profound impact on jobs, industry competitiveness, the price of energy, investment and living standards, domestic gas security is the most crucial challenge facing Western Australia.[109]

[108] Deloitte Access Economics*, 2013, The Economic Impacts of a Domestic Gas Reservation*.

[109] DomGas Alliance, 2010, *Western Australia's Domestic Gas Security*.

In 2010, the ERA submitted to the Economics and Industry Standing Committee Legislative Assembly's inquiry into domestic gas prices that because the State's Domgas policy is "not effective, and would be inefficient if it were effective...consideration [should] be given to recommending that the policy be discarded".[110] However, in this Inquiry the ERA intends to build on its previous analysis and examine the issue in greater depth than previously.

10.3.4 ERA's Approach

As emphasised throughout this Discussion Paper, the ERA intends to take a pragmatic approach to this Inquiry. It is not possible for the ERA to address every potential reform identified during this process; neither the time nor the resources are available to allow that to occur.

This section identifies six situations in which legislation is considered to be preventing competition from fully developing. These are the growing and marketing of potatoes, taxi licences, liquor licensing, the licensing of tradespeople, retail trading hours and the Domgas reservation policy.

It is unlikely that all six areas will be able to be investigated in full. Consequently, the ERA will prioritise reform areas that generate the greatest net benefit to Western Australia.

This list of issues by no means identifies all areas in which anti-competitive legislation exists. A quick review of the areas identified as part of the NCP process that remain unaddressed indicates that there are remaining opportunities for improvement.[111] If interested parties believe that, other reforms relating to product markets may generate a greater benefit than those identified above; the ERA will welcome submissions identifying these.

Finally, there are likely to be considerable benefits to be gained from implementing a regular review of legislation to identify areas in which further reform would generate benefits to society.

10.3.4.1 *Key Issues*

In considering submissions received in response to the Issues Paper, four key areas have been identified as providing opportunities for reform. These are:

- the conditions under which potatoes are grown and marketed in Western Australia; and
- the licensing of taxis, liquor sales and tradespeople;
- retail trading hours; and
- the Domgas reservation policy.

[110] Economic Regulation Authority, 2010, *Inquiry into Domestic Gas Prices: Submission to the Economics and Industry Standing Committee Legislative Assembly*, Page 35.

[111] Productivity Commission, 2005. *Assessment of Government's Progress in Implementing the National Competition Policy and Related Reforms: 2005*.

10.3.5 Questions for Interested Parties

In preparing your response, you may wish to address a number of the questions provided in the box below. The questions cover a range of issues that will be considered by the ERA in conducting this Inquiry and are intended to assist you in developing a constructive response.

To ensure that analysis of the reforms with the greatest net benefits is progressed, the ERA encourages you to clearly articulate the expected benefits and costs of the reform on which the submission is centred. Where you have access to and are able to support your submission with additional information and data, the ERA will find this particularly useful in assessing the benefits and costs of your proposal.

1. Is there a role for the Potato Marketing Board to continue regulating the growing and marketing of potatoes, and if so, what is it?
    a) What factors should be taken into account when evaluating the costs and benefits associated with the operation of the Potato Marketing Board?
2. Should the State's current Liquor Licensing framework be maintained?
    a) What are the costs and benefits of the current system and of any alternatives?
3. Does the existing framework for licensing or registering tradespeople materially restrict market supply? If so:
    a) For which trades does this occur?
    b) How are the numbers restricted?
    c) Do you have any proposals to improve the existing framework?
    d) What are the costs and benefits of your proposal?
4. Would there be any benefits in deregulating the State's taxi market? What are the costs and benefits of the current system compared to a deregulated taxi market?
5. Would there be any benefits in further deregulating the State's retail-trading legislation? If so, what are the costs and benefits of moving to a more deregulated environment?
6. Should the State continue with the current Domestic Gas Reservation Policy? What are the costs and benefits of the current policy and any alternatives?

10.3.6 Further Resources

If you are preparing a submission that relates to product markets in Western Australia, you may find the following resources useful:

Economic Structure and Performance of the Australian Retail Industry: Chapter 10 – Retail trading hours regulation (Productivity Commission, 2011)

Sunday Trading Factsheet (Department of Commerce)

Potato Marketing Corporation of Western Australia Annual Reports

Assessment of governments' progress in implementing the National Competition Policy and related reforms (National Competition Council, 2005)

Submission to Inquiry into Domestic Gas Prices (Economic Regulation Authority, 2011)

Inquiry into Domestic Gas Prices (Economics and Industry Committee, 2011)

The economic impacts of a domestic gas reservation (Deloitte Access Economics, 2013)

Western Australia's Domestic Gas Alliance reports (Domgas Alliance, 2010)

11 Supplementary Issues

11.1 The ERA

The ERA intends to examine the issues detailed above in Chapters 7 to 10 in greater detail in the Draft Report. However, the issues outlined above should not be considered to be finalised. As noted above, the ERA may exclude from the Draft Report any of the issues raised in this Discussion Paper. Similarly, should a strong case be presented in submissions on this Discussion Paper, the ERA will include analysis of the issue in the Draft Report.

11.2 Questions for Interested Parties

In preparing your response, you may wish to address the question provided in the box below.

1. Are you aware of any other economically compelling reforms that could be considered by the ERA in the Draft Report? If so, please detail the nature of the reform and provide a robust analysis of its costs and benefits.

Appendix A – Terms of Reference

INQUIRY INTO MICROECONOMIC REFORM IN WESTERN AUSTRALIA

TERMS OF REFERENCE

I, TROY RAYMOND BUSWELL, in my capacity as Treasurer and pursuant to section 38(1)(a) of the *Economic Regulation Authority Act 2003* request that the Economic Regulation Authority (**ERA**) undertake an inquiry every four years into the microeconomic reform priorities for Western Australia.

The objective of the inquiry is to develop the most advantageous package of microeconomic reform measures that the Western Australian Government could implement to improve the efficiency and performance of the Western Australian economy.

The inquiry should identify areas of reform that have the potential to achieve the following outcomes:

- improved productivity and flexibility of the Western Australian economy;
- increased choice for consumers and business that leads to net economic benefits to Western Australia;
- increased opportunities for Western Australian businesses to effectively compete for national/international market share; and
- the removal or streamlining of unnecessary regulation.

In developing its recommendations, the ERA must give consideration, but not be limited, to the following:

- assess the current level of efficiency of Western Australia's economy, including by comparison with other relevant national and international economies;
- identify those areas in the economy where reform could enhance their contribution to the overall Western Australian economy;
- identify options for improving economic efficiency of the key areas identified above;
- prioritise key areas of reform based upon the potential impact on overall economic efficiency and future growth; and
- recommend a small number of specific key reforms or sectors that require further investigation by the ERA and policy development by the Government.

For the first inquiry, the ERA will publish an issues paper as soon as possible after receiving these terms of reference. During the course of the inquiry, the ERA will publish a draft report and then provide a final report to the Treasurer by 30 June 2014.

For subsequent inquiries, the ERA will publish an issues paper not later than nine months prior to the election of a new State Government, publish a draft report not later than three months after the election, and provide a final report to the Treasurer as soon as practicable thereafter.

Appendix B - Other Initiatives Focused on Reducing the Cost of Compliance

A number of reviews identifying areas in which unnecessary compliance burden (also commonly referred to as Red Tape[112] exists have been conducted recently, both at a State and Federal level. A summary of the key studies is provided below.

New South Wales

The New South Wales Government's current red tape reduction policy includes the following elements:[113]

- Targeting a gross reduction in regulatory burden of 20 per cent, or $750 million, by 2015;
- A 'one on, two off' policy. The number of legislative instruments repealed must be at least twice the number introduced. Repeals can be 'banked' for later use, and can be swapped between portfolios;
- The regulatory burden imposed by new legislative instruments within each portfolio must be less than the regulatory burden removed by the repeal of instruments; and
- Accountability at a senior level. Directors-General are required to report in writing annually to the Better Regulation Office on compliance with the 'one on, two off' policy, and progress against the red tape reduction target. Claimed red tape reductions are subject to independent verification, and are published in the New South Wales Better Regulation Office Annual Update.

The New South Wales Small Business Commissioner is working with small business to further reduce the regulatory burden and cut red tape. This includes establishing the Red Tape Troubleshooter Taskforce which will address key government administrative and regulatory burdens as they are raised by small businesses. Under this initiative the Office of the Small Business Commissioner, the NSW Business Chamber and industry specific agencies are working with small businesses at a grass roots level to identify unnecessary regulatory burdens and administrative practices that can either be removed or streamlined, in order to minimise the impact on the small business sector.

The Independent Pricing and Regulatory Tribunal of New South Wales has established a team that undertakes reviews of regulation and is currently conducting investigations of:

- all licence types in NSW in order to identify those where reform would produce the greatest reduction in regulatory burden for business and the community; and
- local government compliance and enforcement activity aimed at identifying areas in which unnecessary regulatory burdens on business and the community exist.

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[112] The ERA has chosen to avoid the term 'red tape' where possible, because the term's widespread use in public discourse is subject to a much broader definition that that used in this Inquiry, and risks misleading the reader.

[113] New South Wales Government, 2012, *Premier's Memorandum M2012-02 Red Tape Reduction - New Requirements*.

Victoria

Victoria's red tape reduction policy is stated in the Victorian Government's Budget Paper No. 2.[114] Key points of this policy are:

- a gross reduction of 25 per cent, or $715 million, in 'the costs imposed by Victorian regulation on businesses, not-for-profit organisations, the economic activities of individuals and government services';
- a particular concern with the impact of red tape on small business; and
- independent verification of red tape savings by the Victorian Competition and Efficiency Commission (**VCEC**).

In December 2012 the Victorian Government released an economic statement that outlined the Government's intention to commence a series of regulatory improvement projects, conducted by VCEC. The improvement projects focus on practical improvements that can be implemented by regulators and that can improve regulatory efficiency, including cutting unnecessary regulatory burdens. Following a pilot study that was undertaken with the Environmental Protection Agency, VCEC has launched two regulatory improvement studies, one each with VicRoads and The Victorian Commission for Gambling and Liquor Regulation, final reports are required to be published no later than 17 March 2014 and 31 December 2013 respectively.

Australian Capital Territory (ACT)

The ACT Government's support for a strong, viable business sector is reflected in its 2012 business development strategy *Growth, Diversification and Jobs - A Business Development Strategy*. The Strategy sets out key themes to encourage economic growth and diversification of the private sector economy, and contribute to job growth. The three key themes of the strategy are: the right business environment, supporting business investment, and accelerating business innovation.

A key initiative of the Strategy is the establishment of a Red Tape Reduction Panel, a whole-of-government taskforce, designed to investigate, identify and remove regulatory impediments to Canberra businesses. In its initial phase, the Red Tape Reduction Panel has focused on municipal regulatory issues. Early reforms that have been agreed by the Panel will see the ACT Government:

- develop a new business feedback mechanism on red tape, to be delivered through Canberra Connect via a new online "fix my red tape" reporting capability;
- abolish motor vehicle registration stickers; and
- provide for e-lodgement of rental bonds.

South Australia

In April 2012, South Australia completed a two-phase red tape reduction program that has delivered an improved regulatory environment for small business. Operating under the direction of the then South Australian Competitiveness Council[115] the program sought to

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[114] Victorian Government, 2012*, Budget Paper No. 2 Strategy and Outlook 2012-13*, page 29.

[115] The Competitiveness Council was wound up on 30 June 2012 having completed its primary task of reducing red tape for business in South Australia.

reduce business costs, streamline development processes and cut red tape. This burden reduction program has reduced red tape costs by an estimated $320 million per annum.[116]

The red tape reduction program targeted the broad categories of:

- paperwork compliance (including form-filling and providing information);
- non-paperwork compliance (such as staff training, changing production processes or costs associated with regulation-induced delays in business projects); and
- financial costs (including government fees, permits and licences).

At this stage, South Australia has reduced the burden of paperwork compliance by upgrading its internet based tax interface which has increased the functionality of the website to make tax compliance more accessible and flexible for business and by changing its procurement guidelines such that businesses are required to provide only one verbal quote for work costing less than $11,000, rather than three written quotes.

Queensland

The Queensland Government has committed to cutting red tape and regulation by 20 per cent to reduce the regulatory burden on Queensland businesses. To address the regulatory reform agenda, Queensland has established the Office of Best Practice Regulation (**OBPR**) within the Queensland Competition Authority (**QCA**).

The Queensland Government has directed the QCA to report on a framework for measuring and reducing the burden of regulation. The OBPR released its final report on 1 February 2013[117] which identified the following items for immediate reform:

- Aquaculture restrictions;
- Harmonisation legislation that increases costs in Queensland;
- Housing restrictions;
- Land sales and property development regulations that impose a significant red tape burden or restrict competition;
- Mining development requirements that raise costs and delay investment;
- Occupational Health and Safety legislation and Workers Compensation legislation that impose red tape, increase the cost of business and restrict competition;
- Queensland Gas Scheme requirement to generate 15 per cent of electricity from gas;
- Tourism restrictions related to National Parks, Wild Rivers and similar;
- Trading hours restrictions; and
- Vegetation management regulation that increases costs and prevents efficient use of property.

[116] Government of South Australia, 2012, *Reducing Red Tape for Business in South Australia: Final Report.*

[117] Queensland Competition Authority: Office of Best Practice Regulation*, 2013, Final Report: Measuring and Reducing the Burden of Regulation*.

In addition to this, the Queensland Government is undertaking a range of other reform initiatives to reduce the regulatory burden on business. These include:

- the adoption of a risk based approach to the licensing of environmentally relevant activities through the introduction of a standard application process with approximately 50 per cent of all applications proposed to become standard, making it easier and cheaper for businesses to obtain certain environmental approvals;

- a project to streamline mining approvals aimed at improving the efficiency of the regulatory framework for the resources sector;

- cutting red tape for real estate businesses by streamlining home sale contracts and warning statements;

- reform of plumbing and drainage approval process to cut costs and red tape for plumbers, consumers and local governments;

- expanding of the payroll tax exemption threshold to $1.6 million in the coming years (which will result in 90 per cent of Queensland employers not having to pay payroll tax); and

- establishing a monitoring system to ensure all bills from suppliers to Government involving contracts of up to $1 million are paid within 30 days; and

- abolishing the Commercial Waste Levy – a $35 per tonne tax.

Tasmania

As part of its Small Business Strategy and Economic Development Plan, the Tasmanian Government identified regulatory compliance as a potential burden to the economy. To address the issue, a Red Tape Action Plan was established with the objective of reducing the time spent on compliance by business, enabling business people to spend more time doing business.

The Action Plan outlines practical steps that Tasmania will take between 2013 and 2016 to reduce the burden on business. These steps include:

- Further developing the Business Tasmania platform to include online forum and facilitate information sharing, consultation and collaboration between business and government;

- Undertaking a series of seven[118] industry specific consultations during 2013 and 2014;

- Collaboration between councils and the Tasmanian government to develop a shared platform to support streamlined electronic planning application and lodgement processes; and

- Developing online ‘smart forms' for key business to government transactions that will streamline interactions between business and government.

[118] Hospitality, Building and Construction, Agriculture, Tourism, Manufacturing, Aquaculture and fisheries and Multi-sector hotspots.

Appendix C – Sectors Proposed to be Excluded from the Present Inquiry

Health Sector

Background

Health services are provided to promote health, prevent disease, detect and treat illness and injury, rehabilitate and provide palliative care to individuals who experience injury or poor health.

The Western Australian healthcare system is complex, containing a mixture of public and private service providers. Western Australia's public health system, WA Health, employs more than 40,000 people and provides health related services to some 2.4 million Western Australians, regardless of income, physical location and health status.

These services include:

- country and metropolitan public hospitals and community health services;
- health protection through public health services and disaster preparedness management;
- mental health services including in-patient services, crisis management and community treatment and support services;
- dental health services including school dental health and public community dental services; and
- Aboriginal health services.

The Department of Health sets the overall direction for the health system, and has responsibilities encompassing system-wide direction and policy, resource acquisition, allocation and stewardship, and purchasing and regulation.

The Health Sector is a large share of the Western Australian State Government Budget, comprising some 26 per cent ($7,235 million) of General Government expenses in the 2013-14 Budget.[119] [120] Additionally, major health related recurrent expenditure initiatives in the 2013-14 Budget include:

- an additional $2.5 billion in recurrent health spending to 2016-17 to address:
  - increasing demand for hospital and health services, driven by a growing and ageing population;
  - agreed wage increases for registered nurses and midwives;
  - provision of an additional 155 school health nurses; and
  - expansion of community based palliative care to improve indigenous health outcomes.
- an additional $131 million over the 2013-14 to 2016-17 period to meet demand for inpatient mental health services.

[119] Government of Western Australia, 2013, State Budget-*Economic and Fiscal Outlook, Budget Paper No. 3*.

[120] The Australian government is responsible for the two national health subsidy programs: Medicare and the Pharmaceutical Benefits Schemes.

Significant benefits could be available from reform in health services delivery. Indeed, within the context of the 2007 National Reform Agenda (**NRA**), the Productivity Commission noted that if an improvement in total factor productivity of about five per cent was achieved in the national health services, a cost saving of around $3 billion (2005/06) would be available.

Nevertheless, assessing the effects of reform in the present context may potentially be difficult, given that WA Health handles every aspect of health services delivery at hundreds of sites across the State (metropolitan, rural and remote) and, as with the national health sector, there are numerous and complex influences on what and how differing health services are provided.

Additionally, in assessing the effects of improving productivity in the delivery of the national health services, the Productivity Commission noted that the key challenges that they faced were the absence of detailed reform proposals, a lack of evidence-based information about the costs and benefits of such specific reforms, and the incomplete and varying quality of productivity studies.

In the latter case, indicators of performance of the different health service providers were not forward looking, and were based on sometimes dated, historical information that did not isolate the effects of policy choices from efficiency and other influences.

Given the relative size of the Western Australian health sector, with the myriad of services in different locations around the state, the present inquiry may face similar challenges.

Submissions

The ERA did not receive any health related submissions to this inquiry.

Current Reviews and Inquiries

At a State level, the Health System Improvement Unit (**HSIU**), located in WA Health's Innovation and Health System Reform division and established in early 2009, continues to undertake innovation and health system improvement functions previously managed by the Health Reform Implementation Taskforce.

HSIU provides support directly to sites to assist them with reform, process improvement and service change programs, and manages a number of clinical change initiatives and reform projects aimed at improving health service delivery. Current improvement initiatives are being undertaken in the following areas:

- Central Referral Service;
- Emergency Access Reform;
- Elective Services Reform;
- Clinical Services Framework; and
- Consumer, Carer and Community Engagement.

At a National level, on 2 August 2011, the Prime Minister announced that a National Health Reform Agreement had been reached, in partnership with states and territories, which cemented the commitment made at the 13 February Council of Australian Governments (**COAG**) meeting to deliver better health care for all Australians through working together to reform the health system. Under this Agreement, among other things, the Commonwealth Government will:

- increase its contribution to efficient growth funding for public hospital services, to 45 per cent in 1 July 2014, increasing to 50 per cent from 1 July 2017;
- provide the states and territories with additional funding to improve services and to introduce clear national targets and standards to drive hospital reform, for example by changing the National Emergency Access Target for patients admitted, referred or discharged from emergency departments within four hours to 95 per cent up from 90 per cent for all emergency department patients across all triage categories;
- provide more sub-acute care beds; and
- consider the current aged care system, ahead of a rapidly aging population.

Conclusion

The WA health sector accounts for a significant proportion of Western Australia's State Government expenditure and thus provides considerable opportunity for reform toward the efficient and effective use of health resources. However, the ERA considers that given the large size and complexity of the sector, and the absence of any detailed submissions recommending specific reforms and their costs and benefits, a review of the WA Health sector is outside the capacity of the ERA to undertake in the present Inquiry.

Education

Background

The Pre-Primary to Year 12 Education system in Western Australia comprises a total of 1103 different schools and colleges (419,000 students) located throughout the metropolitan, rural and remote areas of the State. This includes 769 Government schools, 305 non-government schools and 29 pre-schools (23 community re-schools and 6 independent pre-schools).[121] In addition there are 5 main universities in the State, and a large number of state administered Technical and Further Education (**TAFE**) institutes and Registered Training Organisations. The State's education system is thus large and subject to numerous and complex influences.

The main Government Departments involved in Education in Western Australia include the Department of Education, the Department of Education Services, the Department of Training and Workforce Development (**DTWD**), and the School Curriculum and Standards Authority. There are also a large number of other important associations, industry bodies and councils integral to the education sector in Western Australia. Examples include:

- Training Accreditation Council (**TAC**);
- Teacher Registration Board of Western Australia (**TRBWA**);
- Western Australian Aboriginal Education and Training Council (**WAAETC**);
- Rural and Remote Education Advisory Council (**RREAC**);
- Association of Independent Schools (**AISWA**); and
- Catholic Education Office.

[121] Department of Education, 2013, *Summary Statistics of Schools and Full Time Students: Table 1.01.*

Education comprises a significant portion (around 16 per cent or $4,378 million), of General Government expenses for the 2013-14 period. Additionally, major education recurrent expenditure initiatives in the 2013-14 Budget include an additional $1.2 billion across the forward estimates for the Department of Education, addressing record growth in student enrolments arising from local demographics, interstate and international migration, as well as providing additional funding for the expansion of Independent Public Schools.

Submissions

The ERA received three submissions related to education and training from CMEWA, CCI and the Australian Council for Private Education and Training. Amongst the main concerns raised by CMEWA and ACPET, were issues related to increasing third party access to existing public training infrastructure and further deregulation of the training market to allow for greater competition. CMEWA also considered that the education fees levied on the children of 457 visa holders of $4,000 per annum should be removed, with consultation going forward prior to the implementation of levies or charges that will impact the sectors' ability to retain skilled workers.

Other concerns raised by ACPET centred on possible asymmetries in Government funding and the need for timely advice to the Vocational Education and Training sector, based on all training and workforce development activity, not just the publicly funded portion.

CCI recommended that public training providers improve their operations through better industry engagement, ensuring a relevant training product that reflects changing industry standards and current business practices; and called for a review of the State Government's Independent Public School (**IPS**) Initiative.

Current Reforms

Future Skills WA is a major new reform that guarantees Western Australians a government subsidised training place at a training provider of choice, where the enrolment is in a qualification meeting the priorities of the State (that is, it is linked to the DTWD's State Priority Occupation List). Future Skills WA begins in 2014.

In 2015, year seven students will move to secondary schooling. Additionally, there will be a new student-centred funding model, which provides a new way of distributing resources to students in public schools in Western Australia. The model provides funding for each student enrolled in a school, with additional funding for Aboriginal students, students facing social disadvantage, students with English as an additional language/dialect and students with disability. There is also additional funding for students in small schools, and schools in isolated and remote parts of the State.

The Western Australian Certificate of Education (**WACE**) is recognised nationally in the Australian Qualifications Framework (**AQF**) and is awarded to senior secondary school students who satisfy its requirements (generally involving completion of two years of senior secondary study). During 2013–14, current syllabuses will be reviewed for all WACE courses for implementation in 2015-16.

At a national level, the Australian Government has made a commitment to reduce regulation, reporting and red tape across Australia's higher education sector, through the implementation of the recommendations from the Review of Higher Education Regulation in 2013-14.

Conclusion

The education sector in Western Australia is broad and varied, involving a large number of schools, industry bodies and differing qualifications. It delivers services to people of all ages, abilities and backgrounds, in all locations throughout the State and is currently undergoing reform at a number of levels. The education sector accounts for a large proportion of State Government expenditure and thus provides considerable opportunity for reform. However, the ERA considers that a review of this sector is outside the capacity of the capacity of the ERA to undertake as part of the present Inquiry.

Planning Regulations

Background

Planning is necessary for a range of reasons, including utilisation of land in urban areas, minimising land use conflicts and regional development that reflects economic, social and environmental needs. There are two main types of planning, these are:

- *Strategic planning, which focuses on the big picture or long term and regional planning throughout Western Australia. It integrates a wide range of economic, social, environmental and infrastructure issues.* [122]

- *Statutory planning, which is the legal and approval arm of planning. Legislation and regulations ensure appropriate land use and development controls exist to effectively manage the process of land use, land supply and urban development.*[123]

The main bodies involved in the planning process include the Minister for Planning, the Western Australian Planning Commission, the Department of Planning and Local Governments. There are also a range of specific boards and panels; these include the Metropolitan Redevelopment Authority and a range of jurisdictional Development Assessment Panels.

Submissions

Seven submissions to the Issues Paper raised issues regarding planning matters.

Shelter WA raised the issue of mandatory inclusionary allowances[124] in developments to increase the stock of affordable housing. Shelter WA also considered that more could be done to encourage efficient use of undeveloped land in urban areas.

The Chamber of Minerals and Energy (**CME**) submitted that land use decisions should be based on economic, social and environmental evidence on a case-by-case basis and not be made outside the current framework.

[122] Western Australian Planning Commission, 2007, *An Introduction to Western Australian Planning System,* pp.1.

[123] Western Australian Planning Commission, 2007, *An Introduction to Western Australian Planning System,* pp.1.

[124] A mandatory inclusionary allowance refers to a mandate percentage of new developments being set aside for affordable housing units.

The Chamber of Commerce and Industry (**CCI**) is concerned that industrial land release has not kept up with the demand for industrial land. CCI consider the reasons for this to be that Landgate may have a conflict of interest in terms of being a profit-seeking organisation and undertaking government policy. CCI also attributes the lack of industrial zoning to the fact that Local Governments are not well placed to be responsible for land zoning, as the objectives of the council may not match the State Planning objectives.

The Western Australian Local Government Association submitted that review of the fees and charges for planning applications should be reviewed, as they are not currently cost reflective.

Current Reviews and Inquiries

The Regulatory Gate keeping Unit within the Department of Finance is currently investigating the regulatory impact of the planning instruments at both State Government and Local Government levels.

The Department of Lands (**DoL**) informed the ERA that it is currently reviewing the processes for the identification and sale/lease of surplus government land and building assets. The DoL has also highlighted the process for assembly of Crown Land and State-level Native Title Policy will be reviewed in the near future.

Furthermore, the DoP released its *Planning makes it happen: phase two Discussion Paper* in September 2013. This report is aimed at embedding best practice into the planning system at both the State and Local Government level, ensuring further streamlining of the planning processes, aligning statutory outcomes with strategic frameworks, enabling more integrated land use and infrastructure planning and reinforcing State and Regional strategic focus.

Conclusion

The submissions raised a number of issues in this area that could be addressed through a reduction of red tape, alternative assessment mechanisms, or a review of current policies and procedures.

However, undertaking a thorough review of planning issues as part of this Inquiry would result in an incomplete assessment, due to the substantial range of issues, and complexity of the assessment required. The ERA considers that a review into the Western Australian planning system should not be undertaken until the current reviews are completed to ensure that duplication does not occur.

Procurement, IT and Communications Reform

Background

The role of the State Government includes procurement of goods and services, including information and communications services required for the day-to-day operation of Government and provision of public services. Government savings in procurement and service delivery in this area may serve to make funds available for more economically beneficial purposes. However, reforms in service delivery may also serve to encourage the development of businesses and investment in the State.

The Government is ultimately responsible for funding its various Departments and Agencies via the Annual Budget, and appoints an independent Auditor General to undertake audits and performance examinations of each of these Departments and Agencies. However, individual Departments and Agencies generally have responsibility for day-to-day spending and resource allocation decisions. Strategic procurement advice is provided to the Western Australian public sector by Government Procurement (**GP**).

The Office of Shared Services (**OSS**) was established by the Western Australian Government in 2005, with the intent of efficient whole-of-Government procurement and service delivery. The OSS was intended to provide IT services to State Departments and Agencies, and human resources, finance, and procurement services. However, in 2011 the State Government announced the decommissioning of the OSS, a process which is currently being finalised by the Department of Finance. This decision was made following in inquiry undertaken by the ERA into the benefits and costs of shared services.[125]

Submissions

Several parties provided submissions relating to Government procurement and service delivery, all of which noted the benefits of well-designed models for collaboration and service sharing between Government Departments and Agencies. The Chamber of Commerce and Industry (**CCI**), whilst making this point, proposed the design of any new service sharing arrangement should be preceded by a review of the issues leading to the decommissioning of the OSS.

The ERA also received multiple submissions on Information and Communications Technology (**ICT**) issues, with a number of parties raising areas in which shared ICT resources, data, and services could improve the efficiency and flexibility of the economy.

The State Library of Western Australia (**SLWA**) raised the example of library management to illustrate the benefits and cost savings that might be realised through investment in a shared library management system. SLWA noted local councils currently have financial responsibility for the selection, upgrade, and operation of disparate systems, resulting in unnecessary expenditure, difficulties for small and remote libraries in maintaining service standards, and little opportunity for the State's library system to benefit from efficient, aggregated planning and purchasing.

Landgate also commented on the value of efficient information sharing systems, providing its implementation of a Shared Location Information Platform (**SLIP**) (a central platform to share and access the Government's geographic data) as a case study in the benefits of aggregating disparate systems and approaches to the delivery of information services, serving both Government and private enterprise. The Australian Information Industry Association noted the potential efficiency gains that might be delivered via a transition to whole-of-Government cloud computing[126] noting that this would not only deliver potential cost savings, but relieve individual Departments and Agencies of the need to develop detailed capacity plans, providing a flexible and scalable shared resource.

The ERA received submissions from Mr Ian Hill and from the AIIA that further stressed the contribution of ICT to economic growth, flexibility and innovation. Mr Hill noted that Government provision of transitional support to small businesses adopting new technologies and entering the digital economy would give Western Australian businesses a competitive

[125] Economic Regulation Authority, 2011, *Inquiry into the Benefits & Costs Associated with the Provision of Shared Services within the Public Sector*

[126] That is, a shared pool of computing resources delivered via the Internet, where applications can be centrally upgraded and distributed to users as required.

advantage, contributing to employment and economic growth. The AIIA noted that the implementation of a robust and open data-sharing policy would reduce the costs of information procurement (both within Government, and for Western Australian businesses), and improve the capacity of Government Departments and Agencies to source and use large datasets to better target efficient service provision, identify potential savings, and improve decision making.

Relevant Issues

Submissions to the Issues Paper addressed both the sharing of technological infrastructure within Government, and the sharing of data between organisations, and between Government and citizens. A targeted strategy for the deployment of shared infrastructure within Government may allow ICT resources to be procured at a lower cost, and distributed and upgraded more efficiently.

A well-designed policy and mechanism for sharing data may also result in cost savings, by eliminating problems such as duplicated payments for information already possessed by another Department of agency, and will improve access to data for decision making and policy development. Data management and sharing policies are already in place in most Australian States and Territories, as well as having been implemented on a Federal level, providing improved access to the digital resources produced by Government. Whilst these assist in inter-agency information sharing, they are also designed to stimulate innovation in business and the community, by allowing wider participation in service delivery.

Conclusion

The ERA is aware that, while individual Departments and Agencies have made progress in these areas, Western Australian reforms in the area of technology, information, and communications have not been developed to the extent seen in other States.[127]

The ERA recognises that technological reforms, and reforms to information delivery and communications, have been prioritised both overseas and interstate, and are likely to become an increasingly significant component of the Government’s service delivery into the future.

Given the issues relevant to this area would require specific technical expertise in addition to economic analysis, the ERA considers that it would be difficult to address them adequately in the present Inquiry, although they may be of interest in subsequent inquiries, or be otherwise addressed by Departments and Agencies with the appropriate background.

Furthermore, although reform in this area are likely to help the State budget, it is unlikely to have a wider-economy impact and therefore it is not consistent with the Inquiry scope.

[127] These include initiatives established by the Queensland, South Australian, Victorian, and the ACT State Governments, as well as the Federal Government’s Australian Government Information Management Office.

Mining in Western Australia

Background

The mining industry represents, in financial terms, one of the largest components of the Western Australian economy. As noted in the ERA's Issues Paper, the State was responsible for $114 billion (46 per cent) of Australia's exports in 2011/12, with $100 billion of this amount relating to the mining industry.

While the share of the workforce employed in most sectors of the Western Australian economy has been consistent over the past decade, the mining industry has seen a sharp increase, with the number of positions in the sector rising from around 28,000 in 1999 to 111,000 in 2013, outpacing growth in employment across the rest of the State's economy. The mining industry has grown from 3 per cent of all employment in 1999, to around 8.5 per cent in 2013, but contributed almost 40 per cent of the State's Gross Value Added (**GVA**) to the economy in 2011/12.

In addition to direct mining output and employment, other sectors of the economy are also directly associated with the resources sector. For example, while no current official data exist, much of the State's manufacturing industry is made up of mineral processing and manufacturing mining equipment. Additionally, a large share of the construction industry is directly related to mining investment projects.

Submissions

UnionsWA noted that the Western Australian manufacturing sector has been in decline, as the State economy has been dominated by the mining and resources sector, and expressed concern that a number of large resources projects in the State have sourced up to 90 per cent manufacturing requirements from overseas, where these might otherwise have been provided by the State's steel manufacturing industry.

The CME highlighted the increasing costs of developing mining projects in Western Australia, and the sector's reliance on foreign investment. It noted the economic impact of Federal legislation such as carbon pricing and the Minerals Resource Rent Tax (**MRRT**), the inefficiency of project approvals processes, and the increasing costs of both labour and energy and proposed a number of reforms to address these issues. The CME proposed reforms include:

- streamlining of environmental and land access approvals processes;
- a review of fees, charges, royalty rates, and taxes, including stamp duty and payroll tax;
- deregulation of the vocational training sector; and
- streamlining of occupational health and safety compliance processes.

In its 2013 Consultation Paper on Proposed Amendments to the Mining Legislation, the Western Australian Department of Mines and Petroleum raised similar issues to those noted by the Chamber of Minerals and Energy.

Conclusion

The ERA recognises that the mining sector is highly significant to the Western Australian economy, and that related areas such as mining royalties, third-party access to mining infrastructure, project approvals, and the long-term sustainability of the industry are likely to continue to shape the State's economy in the future.

The ERA is also aware that the State Government is in the process of conducting a Western Australian Mineral Royalty Rate Analysis project, which may result in changes to current royalty rates. Further, the Department of Mines and Petroleum is in the process of developing its final proposal on the Proposed Amendments to the Mining Legislation mentioned above, which is due to be presented to the Government before the end of 2013, and may result in further changes.

Given the size, complexity, and number of issues relevant to mining sector reform, the ERA has determined that a review of this topic would be too large to address adequately in the present Inquiry. Previous reviews, such as the 2002 Review of the Project Development Approvals System, itself a review of only one of the relevant issues, required significant time, resourcing, and analytical work, in order to deliver a final set of recommendations. As the Western Australian Mineral Royalty Rate Analysis, and the Department of Mines and Petroleum Proposed Amendments to the Mining Legislation are currently being completed, there is also a risk that any work performed by the ERA in this area may duplicate that addressed by these projects. Consequently, the ERA will not address the topic of mining sector reform in the present Inquiry.

Appendix D – Glossary

ABS – Australian Bureau of Statistics
ACCC – Australian Consumer and Competition Authority
ACT – Australian Capital Territory
AIIA – The Australian Information Industry Association
AISWA – Association of Independent Schools
ANRA – Australian National Retailers Association
AQF – Australian Qualifications Framework
BOOT – Build, Own, Operate and Transfer
CBA – Cost Benefit Analysis
CCI – Chamber of Commerce and Industry Western Australia
CEC - Clean Energy Council
CGC – Computable General Equilibrium
CGT – Capital Gains Tax
CME or CMEWA – Chamber of Minerals and Energy Western Australia
COAG – Council of Australian Government
CPA – Competition Principles Agreement
Deloitte – Deloitte Access Economics
DoL – Department of Lands
Domgas – Domestic Gas Reservation Policy
DoP – Department of Planning
DTWD – Department of Training and Development
EAC – Western Australian Economic Audit Committee
ERA – Economic Regulation Authority
GDP – Gross Domestic Product
GP – Government Procurement
GSP – Gross State Product
GST – Goods and Service Tax
GTE – Government Trading Enterprise
GVA – Gross Value Added
HSIU – Health System Improvement Unit
ICT – Information and Communications Technology
Inquiry – The ERA's Inquiry into Microeconomic Reform in Western Australia
IPE – Independent Procurement Entity
IPS – Independent Public School
IWSS – Integrated Water Supply Scheme
Mannkal - Mannkal Economic Education Foundation
Master Builders – Master Builders Association of Western Australia
MFP – Multifactor Productivity
MRRT – Mineral Resource Rent Tax
NCC – National Competition Council
NCP – National Competition Policy and Related Reforms
NRA – National Reform Agenda
NSW – New South Wales
NT – Northern Territory

OBPR – Queensland Office of Best Practice Regulation
OSS – Office of Shared Services
PFC – Public Financial Corporation
PNFC – Public Non-Financial Corporation
PPP - Public Private Partnership
PV – Photovoltaic
QCA – Queensland Competition Authority
QLD – Queensland
RGU – Regulatory Gate Keeping Unit
RIA – Regulatory Impact Assessment
RIS – Regulation Impact Statement
RREAC – Rural and Remote Education Advisory Council
RTRG – Red Tape Reduction Group
SA – South Australia
SAMF – Strategic Asset Management Framework
SBDC – Small Business Development Corporation
SCCA –Shopping Centre Council of Australia
SLIP – Shared Location Information Platform
SLWA – State Library of Western Australia
TAC – Training Accreditation Council
TAS – Tasmania
TAFE – Technical and Further Education
TFI – Total Factor Income
TFP – Total Factor Productivity
TRBWA – Teachers Registration Board of Western Australia
VCEC – Victoria Competition and Efficiency Commission
VIC – Victoria
WA – Western Australia
WAAETC – Western Australian Aboriginal Education and Training Council
WACE – Western Australian Certificate of Education
WANA – WA Nightclubs Association
WEM – Wholesale Electricity Market
WST - Western Standard Time

Appendix E – List of Submitters

This appendix contains a full list of parties who provided the ERA with a public submission in response to the Issues Paper. The ERA has prepared a very high-level summary to provide an indication of the topics raised in each submission, Interested parties can read the entire submission. These are available on the ERA's website.

Submitter	Main Topics Raised
Ajilon Business and Technology Consultants	There is a lack of enabling policy within the General Government sector to allow for enterprise productivity drivers.
Alinta Energy	In relation to the energy market, encourage competitive neutrality, deregulation, removal of subsidies and review of the regulatory approval process.
ASK Waste Management	Review issues surrounding Environmental Protection Licences.
Australian Council for Private Education and Training	Encourage skills reform, shared use of public training infrastructure and industry advice on training priorities.
Australian Information Industry Association	Highlights opportunities for establishing a cloud computing policy, promoting free access to government data and analysis of large data sets.
Australasian Railway Association	Reform heavy vehicle charging to match costs to the amount of usage by vehicle type. Commercialise road investment similar to the operation of public utilities.
Brett Mayberry	Any revenue from recurrent resource royalty projects should be invested and the returns from investment should be recognised.
Chamber of Commerce and Industry	Review State taxes, Government reform, regulatory reform, energy market reform and other issues.
Chamber of Minerals and Energy	Reform infrastructure and asset planning, review environmental and land access approvals, review 'dead weight' fees and charges, training reforms and perform a review of the legislation that surrounds Occupational Safety and Health.
Clean Energy Council	Review Western Australia's electricity distribution industry and recommend reforms to encourage greater competition in the energy and supply services.
Department of Corrective	Recommend the development of demand-based modelling as part of the Treasury funding model, reform of prison industry

Services	in line with that of a government business activity and development of a prison precinct with co-location of services.
Department of Fisheries	The submission provides a review of recent reforms within the Fisheries industry.
Department of Lands	Reform process for managing surplus land/buildings and review the process for assembly of Crown land. Ensure State-level Native Title policy provides greater procedural and timeline certainty for land developers.
Department of Parks and Wildlife	Review the life and structure of forest management plans and production contracts.
Disabilities Services Commission	Procurement reform for the human services sector, increase the role of the not-for-profit sector and encourage Government to act as the facilitator of services rather than the provider.
Eliot Besson	Encourage Western Australia to use energy storage facilities to advance solar energy.
Forest Industries Federation WA	Review red tape and costs of forestry regulation, in particular review the Forest Management Plan.
Ian Hill	The ERA should ensure implementation of State Planning Strategy, reduce the burden of red and green tape and take advantage of the digital economy for small business.
Landgate	The submission provided examples of reforms that have been undertaken by Landgate that could be expanded to other Departments and Agencies, such as its Location Information Strategy and Location.
Mannkal Economic Education Foundation	Emphasize accountability on major projects, normalise peak period demand and cost reflective pricing, entrench property rights and create a roadmap for privatisation of Government Assets.
Marie Jennings	Do not recommend a fixed charge for solar PV systems as it discriminates against owners.
Master Builders Western Australia	Review and recommend reforms to trade licensing, planning approvals, home indemnity insurance, capital works and deregulate trading hours.
Murdoch University	Informational submission regarding the challenges and opportunities for Western Australia's development in regional South East Asia.

Public Sector Commission	Review land approval processes, accountability framework for Government agencies and compliance requirements for the public sector.
Retail Energy Market Company Limited	Recommend reforms that will promote a competitive energy market, including: full retail contestability in electricity, lift gas market moratorium and the ERA should oversee cost reflective tariffs.
Robert Halvorsen	Extend the restriction on changes to petrol prices from 24 hours to one week.
Shelter WA	Review and recommend a range of reforms to enhance supply of affordable housing.
Shopping Centre Council of Australia	Remove unnecessary real estate licensing requirements for large/commercial property transactions and full deregulation of trading hours.
Small Business Development Corporation	Review and removal of existing regulations, ensure that new regulations are appropriate and efficient, streamlining existing compliance process to minimise duplication of process and unnecessary burden on small businesses. Transform the culture of Government Agencies by conducting compliance to a customer focused model.
State Library of Western Australia	Introduce a State-wide library management system.
Suncorp	Identify reforms for the Statutory Insurance market and privatise Compulsory Third Party scheme in the medium term.
Tony Pratico	Review problems facing dairy producers in Western Australia.
UnionsWA	Address the gender pay gap, recognise benefits of collective bargaining and training, ensure local content on large projects and maintain the right of entry regulations.
Vestas Asia Pacific and China	The ERA should do a cost/benefit analysis of moving towards a 30% renewable energy target. Work with industry to secure weather forecasting technology to secure integration of renewable energy in the South West Interconnected System. Write down coal assets and give renewable energy generators priority grid access.
WA Nightclubs Association	Curtail trading hours of non-night club premises, restrict the granting of Extended Trading Permits for special purposes only and protection of staggered closing times regulations.

Water Corporation	Opportunities for potential reform include: tariff reform for wastewater and drainage charges, establishment of appropriate rate of return for the Water Corporation, review inconsistencies as to which party should bear the cost of relocation of existing assets and standardise the performance measures for public utilities.
Western Australian Council of Social Services	Introduce mandatory disclosure of household energy rating at point of sale and leases, introduce a minimum energy rating standard for existing residential buildings, introduce a hardship affordability scheme for low-income households and ensure efficient and affordable rental for low-income households.
Western Australian Local Government Association	Review the fees and charges for Local Governments, review the (charitable) rating exemptions and remove the exemption for Independent Living Units, enable Council Controlled Corporations, reform the electricity markets, particularly the street lighting market and review the Landfill Levy and Native Vegetation Clearing Regulations.
Woolworths	Deregulation of retail trading hours, removal of red tape for liquor retailers and allowing non-metropolitan liquor stores to trade on Sundays.