



18 March 2014

Our Ref:OS-100-03-0001/PS

Coordinator -Inquiry into Microeconomic Reform in Western Australia
Economic Regulation Authority
PO Box 8469
Perth BC WA 6849

Dear Sir/Madam

Updated WALGA Submission: Inquiry into microeconomic reform

Once again, the Western Australian Local Government Association (the Association) would like to thank you for the opportunity to provide feedback to the Economic Regulation Authority's Microeconomic Reform Inquiry.

In March 2014, the Association's State Council discussed the Association's interim submission to the Microeconomic Reform Inquiry's Discussion Paper (State Council is the decision making representative body of the Association's member Councils and is responsible for sector-wide policy making and strategic planning on behalf of Local Governments in WA). State Council made the following resolutions regarding the submission:

That the Association's interim submission and addendum to the interim submission to the ERA inquiry into microeconomic reform be endorsed with the following additional comments:

1. Funding and Utilisation of Infrastructure

Access to the Electricity Grid.

Current Western Power Policy does not allow access to the electricity grid other than for domestic users with PV cells getting feed in access. There are businesses in the State ready to build renewable energy supplies, however they cannot secure customers for their power due to lack of access to the grid.

The reasons given are related to power smoothing required when several small feeds enter the grid. There is a system called *Ancillary Services*, which takes care of such situations.

Access to the South West Integrated Grid (SWIG) should be made available to renewable energy generators at a fee for use basis.

2. The suggestion that the ERA consider privatising the service delivery function of the Water Corporation be deleted from the submission.

Consequently, the Association has updated the interim submission to reflect the changes required by State Council and requests that the ERA accept this final version of the Association's submission in response to the Microeconomic Reform Inquiry's Discussion Paper.

Please note that this final version of the submission also incorporates a new section on the Native Vegetation Clearing Regulations. This section was previously submitted to the ERA as an addendum to the original submission, but is now incorporated in the final submission.

WALGA FINAL SUBMISSION TO THE MICROECONOMIC REFORM INQUIRY DISCUSSION PAPER

General Comments

The Association made an original submission in response to the initial issues paper seeking the identification of matters for consideration by the Inquiry and is happy to respond to the ERA's further Discussion Paper. In doing so, we note that there are a range of issues detailed in "*Appendix C: Sectors Proposed to be Excluded from the Present Enquiry*", and specifically acknowledge the reference to Planning Regulations.

The Association supports the exclusion of planning regulations from examination by the inquiry, particularly given the planning reforms proposed by the WA Planning Commission through the '*Planning Makes it Happen, Phase Two*' program.

However, we would reinforce with the Authority our view that fees and charges for planning applications should be reviewed, as they are not currently cost reflective. We believe that this issue requires a separate investigation by the ERA. and encourage your discussions with the Treasurer, the Minister for Local Government and Communities and the Minister for Planning in this regard.

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? 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?*

Comment: While Local Governments are required to publicly provide 10 year forward plans for infrastructure development and renewal, the same does not apply to government trading entities, departments and agencies. Consequently there is a high risk of disconnection between the plans of different spheres of government within the State. An example of this is the development of power, water and waste water infrastructure, particularly outside of the metropolitan area. The timing of industrial and urban developments which require involvement of a wide range of public entities requires strong coordination. Moves to establish an Infrastructure Coordination Committee type governance model in regional WA is a positive step. However, unless the plans are publicly available it is unlikely to fulfil its potential.

Any analysis of the recent effectiveness of regional infrastructure delivery through Royalties for Regions and Local Government must include an assessment of the impact of discontinuity in the funding available, frequent changes in policy and a high level of uncertainty in planning beyond the budget year.

In relation to general government infrastructure and the process for prioritisation there is a need to harmonise major infrastructure service corridors.

WA is potentially losing out on funding at a Commonwealth level. One example is the loss of \$6m in competition payments for delaying signing the national water initiative.

In terms of the State approach to infrastructure funding, there could be a more strategic use of Royalties for Regions, but this should include consideration of regional and local infrastructure needs, as well as State priorities.

Options for planning and delivering infrastructure to regional and remote areas of the State should include through Regional Development Commissions, in partnership with Local Government.

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

- c. *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.*

Comment: Street Lighting Services

Legislation, regulation and policy in Western Australia restrict the provision of street lighting to Western Power / Synergy or Horizon Power in almost all situations. The customer has no influence in the type of service provided, the level of service or the cost. Street lighting technology is developing rapidly along with a range of innovative provision models. In other parts of the world, for example the United Kingdom, there are well developed public private partnerships that have enabled the adoption of newer, energy efficient technology without the need to draw on public capital. The partnerships involve Local Governments, major engineering contractors, infrastructure asset owners and in some cases electricity providers.

The business case costs and benefits will vary according to the condition of existing assets, costs of maintenance, energy costs and the capital investment required. The existing street light tariffs in Western Australia against which any alternate proposal would compete includes a return on capital and depreciation component; although the majority of assets have been gifted to the electricity distributor by land developers.

Comment: Access to the Electricity Grid.

Current Western Power Policy does not allow access to the electricity grid other than for domestic users with PV cells getting feed in access. There are businesses in the State ready to build renewable energy supplies, however they cannot secure customers for their power due to lack of access to the grid.

The reasons given are related to power smoothing required when several small feeds enter the grid. There is a system called *Ancillary Services*, which takes care of such situations.

Access to the South West Integrated Grid (SWIG) should be made available to renewable energy generators at a fee for use basis.

Comment: Road User Charges

Road user charges have not been formally considered by most Local Governments and given the very wide range of charging models that could be designed it is difficult to do so effectively. From a Local Government perspective any charging model needs to be cognisant of driver behaviour. In particular, a proposal to charge for use of major roads (freeways) will drive some proportion of the traffic onto the local road network, if this is practicable, leading to negative road safety and community amenity outcomes. Likewise parking around the fringe of charging cordons and the provision of effective alternative transport options must be included in the consideration of road user charging.

Alternative heavy vehicle road user charging models are being evaluated at a national level. However, the impact of these models on productivity in Western Australia and on the State's competitiveness within a national and international context requires detailed analysis.

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?*

Comment: The Association recognises there is need to review the State Government's transfer duty regime. Transfer duty can be considered an inefficient tax on several grounds:

- Transfer duty is a volatile source of revenue for the State Government since it relies on both the volume and value of transactions
- Transfer duty adds a substantial outlay to the costs of purchasing a home. This acts as a disincentive for people to move house, which causes the following problems:
 - Low turnover of 'family' sized housing, since older couples are discouraged from downsizing and young purchasers tend to buy bigger homes than they immediately need to avoid paying stamp duty in the future.
 - Workers are discouraged from moving closer to their jobs, which contributes to longer daily commutes.
 - Workers are discouraged from moving from areas with high unemployment to regions with labour shortages

However, the possibility of removing stamp duty raises the dilemma of how to replace the significant taxation revenue that it collects. Two potential options are 1) broadening the base for land tax, or; 2) broadening the base for payroll tax.

Land tax: The Association is opposed to the idea of broadening the current land tax regime. This would mean land taxes and Local Government rates would effectively have the same tax base. Therefore, applying land tax to primary residences could compromise Local Governments' ability to raise sufficient levels of rates revenue to cover the costs they face. Furthermore, community attitudes to increases in rates are likely to worsen with the implementation of a land tax on primary residences, adding to the difficulty Local Governments would face if the land tax base was broadened.

The Treasury's 2010 taxation review suggested that 'a redesigned land tax system could be simply administered by aligning local government rates with the land tax'¹. If a broadened land tax was to be introduced, Local Governments would not support the idea that they should collect land tax on behalf of the State. Local Governments already collect the Emergency Services Levy (ESL) for the State Government and have not been resourced appropriately for this task. While Local Governments are paid an annual administration fee to

¹ Treasury 2010, *Australia's Future Tax System: Report to the Treasurer, Part Two: Detailed Analysis*, Vol. 2, <http://INWW.taxreview.treasury.gov.au/content/downloads/final_report_part_2/AFTS_Final_Report_Part_2_Voi_2_Consolidated.pdf>, accessed 14 February 2013.

contribute towards the costs of billing and collecting the ESL, the administration fees funding pool has not increased since 2004-05.

Payroll tax: The Association does not support broadening the payroll tax base if this includes removing the current exemption for Local Governments. Applying the 2011-12 payroll tax rate and thresholds to WA Local Government wages data for the same year suggests the sector would have faced an aggregate payroll tax bill of \$60 million. This would represent a significant impost on WA's Local Governments since the sector cannot raise enough own-source revenue to cover expenditure on its current responsibilities and is reliant on the State and Federal Governments to meet the funding shortfall.

Applying payroll tax to Local Governments would suggest reciprocal taxation arrangements should apply. Under such a scenario, State Government entities would be liable for Local Government rates. However, the introduction of such rating is unlikely to provide the revenue necessary to cover the sector's payroll tax liability. Furthermore, Local Governments' capacity to raise additional revenue from State Government entities will vary according to the State Government presence in their district. In net terms, the introduction of reciprocal taxation would probably result in significant benefits to some Local Governments in WA, but most would be significantly worse off.

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?*

Comment: Building Permit Approvals

The Association supports the retention of Local Government as the 'permit authority' and therefore opposes any move towards full private certification in WA.

In discussions with the Building Commission and the building industry, the Association has strongly objected to any moves towards full private certification, to ensure that there is some impartiality to the approval of a building permit. As has been found in other States around Australia, if a Building Surveyor does not act in the public interest, there is a greater potential for the constructed building to be unsafe or unsuitable for occupation.

Retaining Local Government as the 'permit authority' eliminates the potential for conflict of interest arising, ensures compliance with other local government requirements, provides greater record keeping and auditing of the process, is more accessible for the general public to access information about local developments, and can ensure that complaints and compliance issues are managed centrally. As the overall objective of the new Building Act is to achieve greater consistency in the building permit process, a move towards full private certification would not provide the same level of transparency and accountability in this process. The Association supports the MBA request for additional resources to DFES to process building permits but does not support the issuing of interim certificates.

There is significant potential to improve process validity and decrease timelines by using consistent online systems such as the Councils Online system developed by WALGA for WA Local Governments. This system is already used for Building and Development Application submission by a small number of LGs and has been very well received by a large number of Builder organisations. The main impediment to uptake by more Local Governments is the failure by state agencies to mandate access to online submission services. Costs to implement Councils Online (or similar) are therefore placed into the discretionary category and, in many cases, fail to make it into budget projections.

The Association supports the autonomy of Local Governments to define and determine local variations to application processes. The Councils Online solution has been designed to allow for this while still maintaining a single user interface to business users. Variations unique to individual local governments are automatically applied based on address information. Councils Online harvests rich information from users in a consistent and simple way. The legislated data is still gathered so existing requirements continue to be fully met but the process is both more consistent and more transparent to users of government services.

Product Markets in Western Australia

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?*

Comment: The Association has the following position in regard to the Liquor Licensing Act (*resolution Dec 2004*); that the existing legislation should:

- Provide a more strategic and holistic approach to liquor licensing, with the capacity to better integrate local town planning and liquor licensing issues;
- Provide more consistency between agencies
- Provide Local Government with more effective controls over new and existing licensed premises;
- Include appropriate provision to more adequately protect the interests of surrounding communities; and
- Provide better prosecution/penalty mechanisms.

Alcohol is not a benign commodity and has numerous harmful effects to the individual and the wider community, therefore regulation is required. The Victorian experience of deregulation has resulted in a dramatic increase in the number of alcohol harm related incidences.

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.*

Comment: Native Vegetation Clearing Regulations

The *Environmental Protection Act 1986* and the associated *Environmental Protection (Clearing of Native Vegetation) Regulations 2004* (the regulations) provide a regulatory framework that prevents inappropriate clearing and minimises the impacts of clearing.

For Local Governments the key issue with the regulations is a lack of clarity about the roles and responsibilities for the sector and the effect of the regulations on the timeliness of the works Local Government has to undertake. Indeed, a number of the Association's members have suggested that Local Government public works should be exempt from the regulations.

Government needs to finalise the review of the clearing regulations as a matter of urgency, as the continued delay is a major impediment to the maintenance and upkeep of the local road network, essential for both road safety and the effectiveness of the road transport task.

The Association recommends that the ERA investigate the benefits of amending the *Environmental Protection (Clearing of Native Vegetation) Regulations 2004* to provide clarity on Local Government roles and responsibilities. This should include investigating the benefits of exempting Local Government public works from the regulations.

Conclusion

Local Government comprises a vital component of the Western Australian economy and is happy to play its part in important micro economic reforms. Local Government is currently undergoing a major structural reform process in the metropolitan area and as a sector has undergone a range of administrative, process and strategic planning reviews in recent times. We look forward to the outcomes of the ERA's investigations and eagerly anticipate its recommendations.

Yours sincerely