



**ECONOMIC REGULATION AUTHORITY  
INQUIRY INTO  
MICRO ECONOMIC REFORM  
IN  
WESTERN AUSTRALIA**

Master Builders Association of Western Australia Submission

**1. INFRASTRUCTURE**

***ERA Recommendations***

*“Apply project evaluation processes, including cost-benefit analysis, consistently and rigorously to all major infrastructure projects.*

*Subject all election commitments to rigorous project evaluation processes before being included in the State Budget.*

*Publish the outcomes of all major project evaluations.*

*Repeal the Royalties for Regions legislation, or restrict regional funding to an amount determined annually as part of the Budget process and guided by appropriate cost benefit analysis on a project-by-project basis.*

*Expand the use and scope of PPP's to procure public infrastructure, particularly in cases that will result in core services being delivered for better value for money.*

*Develop a process and guidelines for unsolicited infrastructure proposals from the private sector.”*

***Master Builders comments***

It is crucial that the WA Government improve its decision making processes for major infrastructure investments.

A fundamental problem with infrastructure supply by state governments is that major projects are commonly announced in an unpredictable way during heated electoral campaigns. Investors, developers and builders cannot really be sure what will be built, when or even where.

Elections can feature huge infrastructure project commitments, made with limited costing work done (sometimes by under-resourced Opposition parties) whose express purpose is to counter perceived polling advantages over political opponents in marginal seats.

Our most recent 2013 election campaign featured both Labor and Liberal urban rail project commitments. The announcements didn't seem part of a long term vision, integrated with the necessary planning decisions and other social infrastructure investments. Limited consultation occurred. Whilst being admirable plans, they were apparent attempts to be 'one hit wonders' during the election with the voters, not considered policies that harmonise effectively with other published

plans (dealing with for example densities, water supply, electricity networks etc), nor were they rigorously tested against other community priorities in published documentation.

Not only is there uncertainty about future announcements, but existing infrastructure projects can be placed at risk in election campaigns. For example, the Opposition in the 2013 state election proposed significant changes to major projects at Burswood and on the Swan River foreshore. Prospective investors would not have been comfortable with the debate.

This uncertainty undermines confidence of private sector investors, who are the suppliers of the vast majority of housing and commercial buildings in WA. They appreciate a stable environment with certainty in governance, because they invest a lot of money and time into feasibility studies and approvals processes. Higher risks mean that higher prices are charged.

What we need instead is to remove major infrastructure planning and investment from the direct control of politicians and have it overseen by an independent body which operates to deliver a long term infrastructure plan. In other words, the ERA findings do not go far enough. We need a new State Infrastructure Council, comprising of government and private sector representatives, to determine our priority needs and to publish plans for the future.

The ERA should affirm its support for a published state key infrastructure plan, always available to every Western Australian online. The WA Government should coordinate and publish the delivery schedule of key infrastructure with a 20 year time horizon, updated say every 4 years. The benefits are clear:

- ✓ Investors, developers, builders and home buyers would be able to see when rail may reach a location, what schools are planned and what road access should be like for a particular area. They would know what electricity supply is available, and the allowed densities in developments.
- ✓ All proposed infrastructure will go through more rigorous cost benefit analysis, as suggested in the report.
- ✓ It would allow for better coordination of federal, state and local government decision making.
- ✓ The new structure could also encourage new models for infrastructure funding.
- ✓ There would be lower risk, and will therefore attract more private investment.
- ✓ The public would get much more value for money.

State Government politicians will have to relinquish some control for the long term benefit of our community in WA. There are models already in place with other independent regulatory bodies, such as the Reserve Bank, judiciary, Development Assessment Panels, and Fair Work Australia, that work effectively and importantly independently of the elected Government.

## **2. Reducing the cost of complying with regulation**

### ***ERA Recommendations***

*“Require departments with a regulatory role to:*

- a. establish a customer service charter with clear and measurable service standards;*
- b. have this customer service charter reviewed by a lead reform agency responsible for the reform programme;*
- c. publish this customer service charter online, and display it in areas where staff provide services to the public;*

*d. include a report on actual performance against the service standards in the departmental Annual Report; and*

*e. set Key Performance Indicators for service standards for senior departmental staff.*

*Where regulatory problems are particularly broad or complex, establish working groups that include public, private, and community-sector representatives to assist in developing solutions.*

*Replace the Regulatory Impact Assessment Guidelines for Western Australia with a statutory mandate establishing the Regulatory Impact Assessment process, and defining the roles and responsibilities of the Regulatory Gatekeeping Unit.*

*Mandate a 30-day minimum consultation period for Regulatory Impact Assessments, where consultation is undertaken as a part of the Regulatory Impact Assessment process.*

*Empower the Regulatory Gatekeeping Unit to develop and conduct post-implementation reviews for all non-legislative proposals that have been subject to a Regulatory Impact Assessment.*

*Direct the Regulatory Gatekeeping Unit to perform an audit of legislation overdue for review, and set a schedule for the review of these Acts.*

*25. Establish a review policy to be applied to all new legislation, specifying:*

*a. criteria triggering the mandatory inclusion of a Review of Act clause;*

*b. criteria for identifying the most appropriate Government or external organisation to perform the review;*

*c. criteria to guide legislators in identifying how frequently a review should be performed; and*

*d. standard wording for the Review of Act clause.”*

### **Master Builders comments**

Master Builders supports steps to impose more rigorous approaches to regulation formulation in WA.

The key area requiring reform relates to our planning processes. Nowhere else is there such a dire need of reform in both residential and commercial / industrial construction-related matters.

Planning reform is a major step towards addressing the need for affordable housing. Planning reform will be a shot in the arm for affordability for two key reasons.

First – time is money. Our current planning system features duplication, delays and complexity. The government’s own reports admit that this is the case. It can take several years to do larger developments. What is overlooked is that development ties up large amounts of capital and savings. The cost of holding expensive tracts of land for subdivision is huge, and progress payments during the construction process are substantial – especially for multi-unit developments.

Every day that files are being sat on, or when documents are being sent from one agency or department to another, the developers are being hit with extra interest costs. These ultimately get passed on to the consumer / client.

There is also the opportunity cost of not being able to use the capital elsewhere.

Cut the time taken to develop and build, and you will cut the interest or holding costs. Plus, the capital can then be recycled more quickly into the next development project, adding to housing supply at lower cost.

The second reason is that uncertainty of planning outcomes reduces the willingness of people to invest. Given the significant capital that is put at risk with development, a planning process with uncertain outcomes will be a significant deterrent to new supply of construction. Why would a developer incur large holding costs and go to the trouble of making many submissions if they don’t

know what or whether they will be able to successfully develop a site for commercial or residential uses under our planning laws?

What is required is urgent action to:

- introduce a system of private certification,
- adopt consistent terminology,
- encourage a better take up of electronic lodgement processes,
- coordinate integrated infrastructure delivery,
- impose tighter regulated time frames for decision making agencies,
- improve disclosure of environmental requirements; and
- apply consistent development approval conditions between local government areas.

These will address problems associated with many planning restrictions that wouldn't survive any basic cost benefit analysis.

When the WA Government faces its own planning difficulties, its solution is to use redevelopment authorities to suspend local planning laws. Reform in this area is long overdue.

### **3. STATE TAXES**

#### ***ERA Recommendations***

*“Consider options for reforming payroll tax, residential transfer duty and land tax:*

- a. broadening the base and lowering the rate of all three taxes to increase their efficiency; or*
- b. increasing reliance on efficient taxes (land tax and payroll tax) and reducing or abolishing the inefficient taxes (residential transfer duty).”*

#### ***Master Builders comments***

Master Builders believes payroll tax should be phased out as revenues permit by restraining public sector wages growth.

Large builders, subcontractors and suppliers all have to pay it once they hit the threshold of \$800,000 on the payroll. Then the business owners must pay 5.5% of the salary bill to the WA Government. This is clearly a disincentive to employ labour.

The 2000-01 payroll tax revenue was \$832 million. This year the WA Government will pocket around \$3730 million in payroll tax in WA from employers. So every year, for 13 years, an average \$222 million more has been taken out of WA employers' pockets and put onto the costs of businesses.

The payroll tax take has grown way more quickly than wages or inflation. It has grown at about 12% each year on average. It has beaten inflation, wage cost increases, and is way above the government's own cost increases.

Its threshold is fixed. So each year, more employers with growing businesses get caught in the tax net. There is no indexation of the threshold. This threshold amount has only changed once since 2003. As wages go up, so too do the tax collections. Even with threshold change this year, collections are forecast to rise by 6%.

Businesses with 12 employees averaging \$70,000 in wages are caught by the payroll tax net. So growing businesses nearing the threshold face higher costs that may not be able to pass onto customers, if they decide to grow further. So the tax operates as a disincentive to employ more people in WA.

The tax also creates an uneven playing field for small and large businesses that face different labour costs in the same industries.

The construction industry is particularly impacted by the cost of the tax because of relatively low profit margins and high labour costs in construction businesses. The tax fails to account for the ability of the taxpayer to pay. A construction subcontractor on tight margins with few profits, but lots of employees, can pay much more payroll tax than a very profitable mining company with a few employees.

The true ultimate cost of the tax grab is shared between businesses, employees and consumers.

WA is not isolated from international competition. By pushing up costs of production in WA we make investment in jobs in WA less competitive.

It should be noted that the tax was originally introduced as a federal tax to finance the building of arms during the Second World War. It was handed to the states in 1971. Now it remains as a politically safe tax grab that is hidden from many voters through higher costs for goods and services and through lower employment levels.

The phasing out of payroll tax could be funded by imposing wage restraints on public sector salaries that have grown at well above inflation for many years.

Apart from lowering the payroll tax rate and phasing out the tax on jobs, the WA Government should immediately commit to indexing the threshold level to wage levels. At least this will protect many growing small businesses from the compliance costs associated with payroll tax.

The ERA's recommendation to increase reliance on payroll tax is therefore not supported, although we would support a broadening of land tax if it were used to help reduce transfer duties on insurances and property transactions. We require more details and a more thorough cost-benefit analysis to assess any proposal to abolish stamp duty and extend the land tax base.

From a purely economic and equity perspective, the proposal has considerable merit as it would encourage more mobility amongst home-owners and be beneficial for the building industry. To enable us to respond to such a significant change to our current tax regime, we would recommend the proposal be considered thoroughly as a separate exercise through the circulation of more detailed information and proposed rates of tax. Rather than be dismissive of the recommendation as it stands, we would prefer more time and consultation on the subject. A further tax review would assist to progress reform in this field.

#### **4. RETAIL TRADING HOURS**

##### ***ERA Recommendations***

Amend the *Retail Trading Hours Act 1987* such that retail trading hours in Western Australia are fully deregulated, with the exception of:

- a. Christmas Day (12:00am - 11:59pm);
- b. Good Friday (12:00am - 11:59pm); and
- c. the morning of ANZAC Day (12:00am – 12pm), during which time only retailers that employ ten (or fewer) staff may open.

##### ***Master Builders comments***

This is supported. We previously provided comments about restricted trading hours for Masters compared to Bunnings which we believe are inequitable, unfair, defying commonsense and inappropriate for the 21<sup>st</sup> century.

#### **5. KEYSTART**

##### ***ERA Recommendation***

*“Abolish Keystart as soon as possible.”*

### ***Master Builders comments***

This recommendation is strongly opposed.

Keystart increases the number of Western Australians who can access finance to purchase a home. The organisation has been in existence for 25 years with no negative impact or drain on state finances. We don't foresee this changing in the future.

People on relatively low incomes and single income families are given the opportunity of home ownership. Lower paid workers, (eg hairdressers, child carers, and cleaners) can all strive to achieve home ownership through Keystart that they would probably be unable to secure through the open market. Even professionals like school teachers, nurses and policemen are now accessing Keystart, especially as single or divorced individuals.

The program provides home loan options with low deposits for both first and subsequent homebuyers.

The funds can be used to buy an established home or to fund the purchase of a block of land and construction contract.

The scheme assists people who would otherwise be unable to access finance through private lenders, with deposits required of as little as 2%. Keystart also provides an innovative shared ownership arrangement and other programs to meet areas of special need to address market failures (e.g. for sole parents, indigenous Australians or people with a disability).

Homebuyers also avoid the need for expensive lenders mortgage insurance that by design protects lenders rather than purchasers.

Loans are also provided for property purchases in smaller regional or remote areas that may not meet lending criteria of private lenders.

Interest rates are provided at reasonably competitive rates, and they may be considered low rates if risk factors are taken into account.

Given that the scheme allows additional entrants into the home buyers' market, the scheme adds to the supply of housing in WA. This additional supply has clear benefits for the WA community which:

- ✓ Makes housing more affordable for people who would otherwise be unable to enter the market;
- ✓ Increases home ownership with its associated social dividends;
- ✓ Reduces pressure on social housing and/or the private rental market;
- ✓ Puts downward pressure on the price of housing given current building supplies and labour are generally available;
- ✓ Generates additional economic activity, employment and associated tax revenues for the WA Government through tax receipts (eg payroll tax, gst, and fees and charges); and
- ✓ Frees up redevelopment opportunities in our existing building stock.

Keystart comprises a very small but important share of the housing market, estimated at 4%. The funds allocated to Keystart by the WA government are capped and the loans are supported by a tangible asset which is reasonable and generally likely to appreciate over time. The risk to government is therefore relatively low. Keystart's history vindicates its purpose and should provide comfort to those who believe it is a risky proposition.

Since its inception in 1989, Keystart has been the most successful government-sponsored home loan scheme in Australia, providing over \$12 billion in financial assistance to prospective home-buyers. Over 85,000 West Australians have been assisted by Keystart into home ownership who would not otherwise have obtained bank finance.

Keystart is now financially self-sufficient and does not require ongoing government financial assistance.

From Master Builders perspective, Keystart compliments the role of the Department of Housing in providing affordable housing options to more West Australians. This includes Shared Ownership loans, SharedStart and an Aboriginal Home Ownership Scheme.

Keystart's success has also assisted the Department of Housing increase its social housing programs. According to Keystart, this equates to more than \$300 million over the last 5 years.

As Keystart now funds about 20% of all first home buyers and over 15,000 borrowers there would be significant adverse effects should it be abolished in accordance with the ERA recommendation.

It is clear the benefits far outweigh the costs and risks. The ERA needs to acknowledge the market future both an economic standpoint, as well as a social benefits perspective.

## **6. Industrial Relations Reform**

This is an area of reform that the ERA chose not to tackle. Although most employers in WA, being corporations, are now covered by the federal industrial relations (IR) jurisdiction, there are thousands of sole traders and partnerships that remain within the state IR jurisdiction.

IR regulation via the state IR Act, industrial awards and Minimum Conditions or Employment Act are placing unnecessary restrictions and inflexibilities on business to operate efficiently. These imposts provide a deterrent to employ additional workers and add to the cost of labour.

Master Builders recommends the WA government needs to tackle the issue of IR reform which is long overdue. This area of micro-economic reform will benefit the WA economy significantly.