



CCI's Submission to the ERA Inquiry into Microeconomic Reform.

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About CCI

CCI is the peak organisation representing business in Western Australia. It is the second largest organisation of its kind in Australia, with a membership of over 8,500 businesses across all sectors of the economy. CCI aims to build a competitive and productive business environment in Western Australia by promoting free enterprise through advocacy and essential services that make it easier to do business. CCI's vision is for Western Australia to be a world leading place to live and do business.

Executive Summary

The Western Australian economy is in a transition period, as years of rapid investment in the state's resources sector begins to slow down, and effort moves into the production phase of the resources cycle. The state's most recent surge in resources sector activity has been unlike any other in the state's history, both in terms of scale and in terms of the lasting legacy it will leave.

CCI considers now a perfect time for the State Government to embark on a new agenda of microeconomic reform that seeks to promote the state's natural and comparative advantages while allowing businesses across the economy to take advantage of the unique position the state finds itself in. The State Government's fiscal position has deteriorated in recent times, which has been highlighted by the recent loss of the state's prized AAA credit rating, which further reinforces the importance of embarking on a microeconomic reform program, which includes a focus on the role of government in the WA economy.

CCI looks forward to working with the ERA to develop and promote this agenda throughout the Inquiry process.

CCI has provided a range of microeconomic reform suggestions covering broad facets of the state's economy, and a number that deal with the machinery and structure of government – which is crucial to ensuring the state is able to make best use of its scarce resources. These recommendations are grouped into five headings.

State Taxes

- Examine the state's **transfer duty** regime to determine whether enhancements can be made to increase efficiency.
- Abolition of **transfer duties on residential property** should be a long-term objective for the State Government, with the example of the ACT's approach a potential case study for reform.
- Incorporate the **Metropolitan Region Improvement Tax (MRIT) into the broader land tax** base.
- Simplify the **land tax** scale, and adopt a "smoothing" approach to determine land values for land tax purposes.
- Abolition of **payroll tax** should be considered a longer term priority for the State Government, that it should continue to promote with the Federal Government as part of changes to federal-state financial relations.
- In the short-term, the **competitiveness of the payroll tax base should be a priority**, with reforms to lift the payroll tax threshold to \$1.5 million and have it appropriately indexed, combined with a reduction in the payroll tax rate to a measure like a population-weighted average.

- The **Perth Parking Levy** should be abolished.

Government Reform

- The ERA should conduct a **functional review of government** with a view to reducing the number of government departments and agencies.
- The State Government should consider **alternative service delivery models** with greater private and non-government sector involvement in a broader range of portfolios.
- A review into the **Office of Shared Services** program should be conducted to determine what caused it to fail.
- The State Government should **adopt the Economic Audit Committee's recommendations** on people management and governance in the public sector.
- The ERA should **review the operation of the Royalties for Regions Fund and WA Future Fund** from an efficiency perspective.
- The ERA should **review options for asset privatisation** to free up the state's balance sheet and provide funds for other purposes.
- Appropriate **infrastructure governance structures** should be introduced to provide the private sector with better guidance on government's plans, while ensuring a better prioritisation of investment projects.

Regulatory Reform

- The ERA should **recommend elements of the various COAG Reform Agendas** that the State Government should adopt.
- The State Government should **investigate options for full deregulation of intrastate aviation services**.
- The State's **Liquor Laws** should better recognise the needs of businesses and consumers, and remove anti-competitive provisions.
- The State Government should **refer its industrial relations powers to the Commonwealth**.
- The ERA should investigate approaches that could be taken to **deregulate the taxi industry in Western Australia**.
- The final steps to **full deregulation of retail trading hours and product restrictions** should occur.
- The State Government should **take full control over the application and monitoring of the Food Act 2008**.

Energy Market Reform

- Government must undertake **transparent analysis of post-Verve-Synergy-merger options for increasing competition** in WA's electricity market.
- The State's **electricity tariffs should be made cost-reflective** as soon as possible, while the **tariff equalisation contribution** should be scrapped or financed from direct revenue.

- A pathway to **full retail contestability** must be articulated by the State Government.
- The ERA should examine **how to implement time-of-use pricing** to reduce peak demand and create network savings.
- The State Government **should continue efforts to improve gas market transparency**, which should ultimately lead to an increase in liquidity in the domestic market.
- The State Government **should support a review of the feasibility of a short term gas trading market**.
- The **Renewable Energy Target** should be examined by the ERA to determine how the state can best meet its target obligations.

Other Issues

- The ERA should conduct a review into the **land development supply chain in Western Australia**.
- The State Government should consider the **appropriateness of local government involvement in land zoning laws** in the context of state planning strategies.
- The State's **major project approvals processes** should be reformed to reduce the burden on major project proponents and streamline the process.
- A **review into the waste management industry** should be conducted to create an environment that fosters greater competition, efficiency and innovation.
- The recently announced **Local Government Amalgamation process should be extended to regional Western Australia**.
- The State Government's **Independent Public School Initiative** is delivering its intended benefits, but should be reviewed to ensure schools are operating efficiently. Standards should also be kept high for schools wanting to become part of the initiative.
- Reform to **State Training Providers** is required to ensure they are meeting the needs of industry.

Economic and Fiscal Context

Following a number of years of very strong economic growth, the WA economy is heading for a period of consolidation, as resource sector investment reaches its peak.

Western Australia's recent run of strong economic growth has been driven largely by demand for the state's resources from developing Asia – and China in particular – which has fuelled an unprecedented wave of investment activity. Over the past decade, business investment grew by an average of 13.1 per cent a year, as resources companies sought to take advantage of this rapid growth in demand from developing Asia by increasing their capacity to extract and export resources from the state.

The state's population has also been growing at above-average rates, with population growth hitting a record 3.5 per cent over the course of 2012. This is almost triple the average rate of growth between 1990 and 2005. The latest demographic statistics indicate the state's population grows by around 1,600 people per week, as record numbers of interstate and international migrants move to Western Australia to take advantage of our prosperous economy.

The impact of the strong growth in developing countries continues to benefit the local economy. WA continues to boast a strong investment pipeline, which has meant that overall conditions still remain very strong. This has been reflected in State Final Demand, which grew by 4.9 per cent in the 2012-13 financial year, on the back of an 8.1 per cent increase in business investment and solid growth in consumer spending.

However, this level of investment activity cannot be sustained over the longer term. As a result, economic growth in WA will moderate in coming years as the investment boom reaches its peak. After growing by 6.7 per cent in 2011-12, and a further estimated 6.3 per cent in 2012-13, CCI expects the WA economy will grow by 5¼ per cent in 2013-14 and 4¾ per cent in 2014-15. In both instances, this is above the state's long-run average of 4.2 per cent per annum.

However, while investment may cease to be a significant driver of growth, CCI expects these recent investments in new capacity to add to the state's export capacity. CCI forecasts exports will grow by eight per cent in both 2013-14 and 2014-15, aided by the commencement of liquefied natural gas exports towards the end of this period.

Outside of investment and exports, CCI expects the long-dormant housing market will begin to be a larger part of the state's growth profile in an environment of low interest rates and rising population. Dwelling investment is expected to grow by eight per cent in 2013-14, and a further two per cent in 2014-15. Meanwhile, consumer spending is expected to remain stable on the back of low unemployment and high incomes; recording growth of 4½ per cent in 2013-14 and 2014-15 respectively.

The shift in the profile of growth presents a significant revenue challenge for the WA Government. Western Australia's fiscal position will become difficult over the coming years as the Government seeks to balance structural issues in the state's revenue base with a record investment program and rapid growth in recurrent expenditure¹. On one hand, the state is constrained in its ability to raise revenue because of the narrow taxes and charges it is permitted to impose; on the other, the state's population is growing faster and richer than at any time in recent history, creating additional demand for government services, like health and education.

¹ See CCI's State Budget Update 2013-14 for further information and opinion on the initiatives contained within the 2013-14 State Budget.

The extent of the challenge was highlighted by the 2013-14 State Budget, which showed that the State's net operating balance is projected to remain in surplus in 2013-14, but will record a \$147 million deficit in 2014-15, largely due to a small decline in revenue between these two years.

However, the true challenge for the WA Government is not slowing revenues; it is the unsustainable growth in spending. For the past five years, spending growth has averaged 10.2 per cent a year, compared to revenue growth of 7.6 per cent. Much of this pressure has been driven by government wages and salaries, which have increased from \$8.9 billion in 2008-09 to \$12.6 billion in 2012-13, and are expected to reach \$15.3 billion by the end of the current forward estimates period.

At the same time, the state's balance sheet has come under pressure as a result of the State Government's significant asset investment program. Between 2006-07 and 2012-13, the WA Government's total public sector net debt has increased from \$2.9 billion to \$18.5 billion as the Government invested some \$33.9 billion in infrastructure and other projects across the state. Investment is projected to remain elevated over the coming forward estimates period, with a further \$26.9 billion in planned asset investment between 2013-14 and 2016-17. Beyond this, the State Government has committed to new major transport projects and the development of a new major stadium, which are currently unfunded.

As a result, the total public sector's net debt position is expected to deteriorate to \$28.4 billion in 2016-17, with gross debt liabilities projected to breach \$50 billion. With a raft of major projects still yet to hit the state's balance sheet, it is conceivable that net debt will climb beyond \$30 billion at some point beyond the current forward estimates period.

The WA Government does recognise the structural budget challenges it faces. The centrepiece of the 2013-14 Budget, the "Fiscal Action Plan" contains a number of important savings measures that will go some way to shore up the fiscal position in the short term and provide the platform for further savings to be achieved over the longer term.

In particular, legislative changes which will allow for involuntary redundancies, and capping the growth in agency salaries and industrial agreements to CPI, as well as reviews of government programs across the public sector and the introduction of sunset clauses on funding for new programs, are important reforms.

However, the size of the fiscal challenge facing the WA government will also require structural solutions to reduce the size of the public sector and improve its efficiency. To address these challenges over the longer term, the WA Government will need to explore ways to more effectively engage the private and community sector to deliver key services.

While the benefits of such a reform agenda will ease the financial stress on the government, it will also boost the state's productive capacity at a time when the economy is still being squeezed by inadequate and inefficient infrastructure and service delivery.

Over the long term, CCI believes the Western Australian economy finds itself in a unique position to benefit from the shift in the world's economic growth centre to our region. As the region continues to urbanise and industrialise, it will create opportunities beyond the supply of bulk commodities; in areas like value-adding manufacturing, services, food production and sharing our knowledge and expertise in areas like engineering, design and technology. The reforms set out in this submission will help place WA in an ideal situation to capitalise on these opportunities.

State Taxes

The Western Australian State Government levies a range of taxes and charges to fund its operation, while receiving top-up funding from the Commonwealth Government through a series of tied and untied revenue grants. The State's three most significant taxes are transfer duties, payroll tax and land tax.

Tax reform is an important part of any microeconomic reform agenda. Reform is needed to ensure the tax system has minimal impact on business and individuals, assists competition, and promotes employment, investment and economic growth. It will also provide the State Government with a more secure and predictable revenue base. Reform should also seek to reduce the overall size of the tax burden faced by the private sector, to ensure as much of the state's scarce wealth is being put to use by the private sector.

Transfer Duties

Transfer duties are transaction based taxes levied on a range of commercial and non-commercial transactions. In most instances, the tax is paid by the buyer of the particular item or property, with the rate determined by the value of the item or property on a step rate scale.

Western Australia levies the following transfer duties.

- Duty on residential and commercial property transactions, and other types of intangible business asset transactions (known as "Transfer Duty").
- Duty on the value of the premium of most kinds of insurance ("Insurance Duty")
- Duty on land transfers by commercial entities or trusts ("Landholder Duty")
- Duty on the licensing of a new or transfer of a used vehicle ("Vehicle Duty")

Transfer duty on property is the most significant of these duties for the State Government from a revenue perspective, raising \$7.2 billion (18.4 per cent) of the State's taxation revenue over the current forward estimates period. Overall, transfer duties raise \$12.7 billion between 2013-14 and 2016-17, or one third of the state's total taxation revenue.

Transfer duties are highly inefficient and distortionary taxes as they are based on transactions, and fail the basic principles of good tax design in that they are narrowly based and inefficient. They lead to inefficient outcomes as businesses and households change their behaviour to avoid the tax, which may mean that resources are not allocated to their most efficient or productive use. Transaction taxes are particularly distortionary in cases where demand for the good or service is highly elastic – such as the purchase or sale of a specific property by or to a specific buyer.

The issues with transfer duties were highlighted by the 2008 Henry Tax Review, which found that conveyancing stamp duties resulted in a net welfare loss of around 40 cents in the dollar for each additional dollar of revenue raised. In the case of insurance duties, the loss was estimated at around 66 cents in the dollar. In particular, Henry commented on transaction duty²:

² Treasury. 2010. *Australia's Future Tax System: The Henry Review*. Accessed online at <http://www.taxreview.treasury.gov.au/>

- “Ideally, there would be no role for any stamp duties, including conveyancing stamp duties, in a modern Australian tax system”; and
- “Transaction taxes...are generally inefficient because the tax rate rises according to how often an asset changes hands, rather than any underlying economic value. There is no ‘economic base’ for transaction taxes.”

CCI recognises that transaction-based taxes, in particular transfer duty on property assets, represent a significant proportion of the State Government’s own-source revenue; and in an environment where the State’s grant revenue is coming under pressure from a declining share of GST, reform that reduces the state’s ability to raise revenue in its own right may be challenging.

However, the abolition of highly inefficient transfer duties remains an important reform over the longer term.

One case study on the potential for longer term reform is the Australian Capital Territory, which in 2012-13 commenced a process of abolishing transfer duty on commercial and residential property over the coming decade. The revenue raised by transfer duty is to be replaced by a broad-based land tax regime³. CCI does not have a view on the cost or benefit of this initiative, although theoretically a broad based land tax is significantly more efficient than transfer duty⁴.

In the meantime, changes should be made to the existing duties regime to improve its efficiency. In relation to Transfer Duty on real property, Western Australia’s transfer duty scales have not been adjusted to take into account the property boom which occurred in the early to mid 2000s, where the Perth Median House Price increased from \$160,000 to its current level of \$505,000⁵. As a result, the “median property” in Perth is now subject to a rate of duty equal to 3.6 per cent of the purchase price (or \$18,000), compared to 2.8 per cent (or \$4,600) in 2000-01. The state’s transfer duty scales for residential and commercial property should be adjusted, to return the effective rate of taxation to levels seen prior to the “property boom” in the early to mid 2000s.

³ ACT Government. 2013. *A Fairer, Simpler and More Efficient Taxation System: Five Year Reform Plan*. Accessed online at <http://www.treasury.act.gov.au/>

⁴ Treasury. 2010. *Australia’s Future Tax System: The Henry Review*. Accessed online at <http://www.taxreview.treasury.gov.au/>

⁵ REIWA. 2013. *REIWA Market Update: March 2013*.

Land Tax and Metropolitan Region Improvement Tax (MRIT)

Land tax in Western Australia is levied on the ownership and usage of land in Western Australia. While a number of exemptions are in place, land tax is generally payable on land that is used for commercial purposes, is vacant but owned, or is a place of residence that is not utilised by the owner.

In Western Australia, land tax is payable on the taxable value of the land on a step rate scale which increases as the value of the land increases. The first \$300,000 of taxable value is exempt from taxation, while land valued at \$11 million or more is taxed at the highest rate (2.43 per cent for every dollar over this amount as of 1 July 2013). Land tax is calculated at the entity level, not on the land parcel level.⁶

Land tax is a significant source of revenue for the State Government, raising some \$3.1 billion over the current forward estimates period. This amounts to 7.8 per cent of the State Government's taxation revenue.

The Metropolitan Region Improvement Tax (MRIT) is a tax levied in addition to the amount of land tax payable, equal to 0.14 per cent of every dollar over \$300,000 of the taxable value of a non-exempt property in the Perth Metropolitan Area. For the purposes of MRIT, the Perth Metropolitan Area is determined by the local government area that the land sits in. Notionally, the MRIT is used to fund the acquisition of land for public facilities such as parks, open spaces and roads, and is expected to raise \$404 million over the current forward estimates period.

Land tax is, according to the Henry Tax Review, one of the most efficient forms of taxation currently levied by any level of Government in Australia⁷. As a tax on an immovable asset, land tax is significantly less distortionary than other, transaction or value-based property taxes like transfer duty.

However, the land tax regime in Western Australia is complex and in some instances can result in significant fluctuations in tax payable between years due to changes in the value of land.

Western Australia is the only state to levy two kinds of land tax, the broad "land tax" and the MRIT. This results in businesses that are subject to both receiving a bill with separate lines for what amounts to a single tax. The MRIT is also a narrowly-based tax, in so far as it applies to businesses in particular local government areas and the notional revenue raised by this funds infrastructure and other developments which benefit both MRIT-payers and non-MRIT-payers.

While the process of determining the taxable value of land (utilising the Valuer-General's "Unimproved Value" assessment, including the ability for taxpayers to dispute the assessment) is sound, particularly when compared to other states and territories, reforms that seek to make land tax liabilities more predictable for tax payers are desirable. The State Government's current policy of limiting the increase in land values between years to 50 per cent, introduced on 1 July 2009, was a step in the right direction, but can still result in significant year-to-year increases in tax liabilities.

⁶ If one business owns two separate titled parcels of land that are worth \$250,000 each, the total land value that the business is liable for is \$500,000. If land tax was levied at the parcel level, the business would not be liable for land tax as the taxable value of each parcel does not exceed the lower threshold.

⁷ Treasury. 2010. *Australia's Future Tax System: The Henry Review*. Accessed online at <http://www.taxreview.treasury.gov.au/>

Land tax in Western Australia is also subject to a six point scale, which is more than most other states and territories. For example, New South Wales has a simple, two rate and threshold system, with the higher rate only applicable on property holdings valued over \$2,000,000.

While land tax is a relatively efficient tax, reforms can be made to make the application and payment of land tax more administratively efficient for tax payers. In particular, the MRIT should be progressively incorporated into the broader land tax base, in recognition that there is no basis to levy an additional, narrowly based tax on land values. This approach also recognises that current MRIT tax payers are effectively paying for government services that are utilised by non-MRIT tax payers.

The current valuation process is sound, in that the independent Valuer-General is the determinant of land values in the state. This contrasts to the approach of other states and territories, who utilise local government valuations as the determinant of the taxable value of land. However, Western Australia's approach can lead to significant fluctuations in the amount of tax payable by an individual tax payer, which can create compliance difficulties and inhibits the ability of business to plan effectively. In order to mitigate this, CCI recommends that a "smoothing" approach be taken when determining land valuations for tax purposes. This would ensure that tax liabilities are more predictable, while ensuring the land valuation for tax purposes remains contemporary.

Over the medium-term, consideration should be given to reducing the number of land tax scales applicable in Western Australia. The Henry Review found that applying a flat-rate land tax was more efficient than a step-rate system, noting that having higher rates for higher valued land holdings can discriminate against firms that are seeking to build larger land holdings which can be more efficient – particularly for residential development. The ideal system in this regard would be a single rate and threshold system, which does not discriminate against large land holdings.

A move to a single rate and threshold system would also provide the groundwork for an eventual transition to a broader-based land tax regime to replace transfer duty. The theoretical grounds of such a move are well established, however careful consideration should be given to how this could be implemented in the least-distortionary manner (noting that the introduction of a land tax on previously untaxed land reduces land values by the equivalent of the tax payable, discriminating against existing land holders).

Payroll Tax

Payroll tax in Western Australia is levied on private sector employers. The liability is calculated as a rate of the employer's total payroll amount Australia-wide, including entitlements and deductions made in relation to an employee (such as superannuation, bonuses, fringe benefits and termination payments), and is paid in Western Australia on the Western Australian share of the total payroll. The tax is self-assessed, and is payable either monthly, quarterly or annually.

In Western Australia, an employer is liable for payroll tax if the national, group-wide payroll of the employer is more than \$62,500 per month (or is expected to be more than \$750,000 over a year). The rate of tax is 5.5 per cent. There are a range of temporary rebates and exemptions, including for employers employing Indigenous persons and people with a disability. The State Government has committed to increasing the payroll tax exemption threshold to \$850,000, commencing with an increase to \$800,000 in 2015-16 and a further increase to the new \$850,000 threshold in 2016-17.

Payroll tax is a very significant source of State Government own-source revenue, accounting for \$16.6 billion in state revenue over the current forward estimates period. This makes payroll tax the second largest line of own-source revenue for the State Government, and also the second largest line of 'untied' revenue the state receives.

While theoretically the incidence of payroll tax falls onto employees through reduced wages, in practice payroll tax acts as a disincentive for business growth and job creation. The business community views payroll tax as a penalty for successfully growing their business, creating new employment and generating wealth for the Western Australian economy.

Payroll tax has the biggest impact on business decision as the total payroll approaches the exemption threshold, with the effective marginal cost of employing additional labour increasing once the employer moves through the exemption threshold and becomes liable for payroll tax.

Western Australia's payroll tax regime is also one of the least competitive in the country. The Commonwealth Grant's Commission found that in 2009-10, Western Australia's capacity to raise payroll tax revenue was 19 per cent higher than the national rate, and is one of the major drivers behind WA's low share of GST revenue⁸. The state's payroll tax rate and exemption threshold compares unfavourably to other jurisdictions:

	Rate (13-14)		Threshold (13-14)
Western Australia	5.50%	Western Australia	\$750,000
Queensland	4.75%	Queensland	\$1,100,000
New South Wales	5.45%	New South Wales	\$750,000
Victoria	4.90%	Victoria	\$550,000
South Australia	4.95%	South Australia	\$600,000
Tasmania	6.10%	Tasmania	\$1,250,000

Western Australia has the second-highest rate of payroll tax, while having the third-lowest exemption threshold.

CCI believes that payroll tax should be abolished over the long-term, subject to appropriate replacement revenue becoming available. Abolishing payroll tax in Western Australia would provide a significant

⁸ Commonwealth Grants Commission. 2012. *2012-13 Relativity Update*. Accessed online at <http://www.cgc.gov.au/>

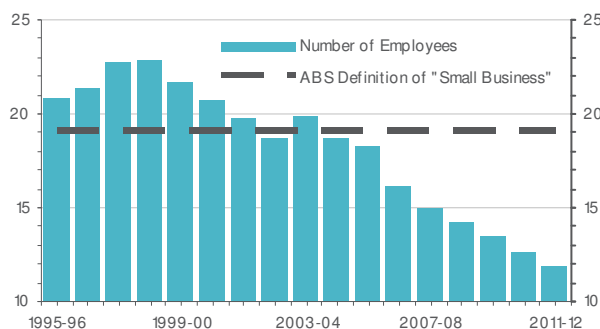
incentive for businesses to grow their Western Australian workforce, as they would be able to employ additional workers in the state without having to pay payroll tax.

However, in the short-term, reform should be made to both the rate and threshold to ensure it minimises the disincentive for businesses that want to grow and employ more people.

While the State Government has committed to increasing the payroll tax exemption threshold to \$850,000 on 1 July 2016, this will not keep small business out of the payroll tax net. Prior to being adjusted next year, the state's payroll tax threshold had remained unchanged since 2003, when an employer could employ approximately 15 staff before becoming liable for the tax. The strong economic and wages growth in the state since then has meant that businesses can now only employ nine workers based on average earnings before becoming liable (see Chart).

Payroll Liability Threshold

Number of Employees Before Liable, AWE Basis



Source: ABS Cat. 6302.0, WA OSR, CCI

Ensuring the state's payroll tax regime is the most competitive as possible should be a priority in the short-term. The payroll tax threshold should be lifted to \$1.5 million, to exempt small business and enhance the attractiveness of the state as a place to employ people. Once this is achieved, an appropriate indexation policy should be implemented, to ensure this competitiveness is maintained.

Western Australia's payroll tax rate should also be progressively reduced below the national population-weighted average (currently 4.9 per cent). A move to a lower payroll tax rate would provide an incentive for businesses to employ more people in Western Australia, and place more of the state's scarce resources into the hands of the private sector to invest and create new employment.

Perth Parking Levy

The Perth Parking Levy is a charge administered under the *Perth Parking Management Act 1999*, and applies to all non-residential parking bays within the Perth Parking Management Area (broadly, an area bound by Thomas St to the West, Kings Park Round/Mounts Bay Round/The Swan River to the South and East, and the Graham Farmer Freeway to the North). To allow a non-resident to park their vehicle (excluding motor cycles) in this area, holders of a permit are required to pay an annual licensing fee of between \$630.80 and \$728.70 for each bay⁹.

The Perth Parking Levy is intended to provide the State Government with funds with which to develop policies and strategies to decrease the use of cars in the Perth Parking Management Area. The revenue raised largely goes towards the operating costs of the free CAT Bus system, but is also notionally used to improve pedestrian safety, promote access to public transport and alternative transport modes.

According to the 2013-14 Budget, the Perth Parking Levy raised \$33 million in 2011-12, and a further \$38 million in 2012-13. This revenue is deposited into the Perth Parking Licensing Account, and appropriated to various departments within government to undertake *Perth Parking Management Act 1999* activities.

The Perth Parking Levy is unfair and contravenes good public policy and good tax policy. It taxes a narrowly-targeted class of citizens in order to meet the cost of providing a particular benefit to another group of narrowly-classed citizens. The tax has an adverse economic impact because it increases the relative costs and diminishes the amenity of doing business in the CBD. Because demand for car parking bays is highly inelastic, it does not act as a deterrent for users of cars, but rather increases costs for businesses, and their customers, in Perth city which increases pressure on businesses to relocate.

CCI believes the Perth Parking Levy should be abolished, and activities and expenditure associated with the *Perth Parking Management Act 1999* subsumed into the broader operation of government. CCI also questions the role of the State Government in the management of parking bays within a specific Local Government Area. While there may still be a role for regulation of the number, location and type of parking bays within the CBD area, the State Government should devolve this power to the City of Perth in line with practice for other Local Government Areas.

⁹ Department of Transport. 2013. *Licensed parking in Perth: A guide to licensing non-residential parking bays for 2013-14*. Accessed online at <http://www.transport.wa.gov.au/>

Government Reform

In a time of increasingly constrained government finances (see Economic and Fiscal Context), the State Government must consider ways to spend scarce tax payer dollars more efficiently.

Government spending has been outpacing revenue for the past five years. As a result, there are significant costs now built into the operational expenditure of the WA general government and broader public sector, which are difficult to unwind without a program of structural reform.

Recognising the potential for a challenging fiscal environment in the future, in 2009 the Liberal-National Government commissioned an inquiry into the operation of the WA public sector, dubbed “The Economic Audit Committee Report” (EAC)¹⁰. The EAC report provided a comprehensive blueprint for operational reform of the WA public sector, with the overall objective to reduce the ongoing operational expenditure of the State Government through reform to the way the public sector conducted business. However, the EAC report terms of reference did not allow the Committee to examine structural reform to the public sector, which CCI considers vital in reducing expenditure growth.

The EAC report contained 112 recommendations, ranging from increasing the ability of the State Government to deliver on its priorities, better service delivery, increasing competition and contestability for government services and reforms to the way the State Government manages its human resources. Broadly, these can be broken into two components, a functional review of government and management and governance reform.

Overall, reform to the operation of the public sector in Western Australia should aim to redirect scarce government resources to areas of higher priority.

Functional Review of State Government

Western Australia’s public sector structure is more complex compared to other states and territories (Table 1). At the end of 2012, the Western Australian public service is home to 163 departments, agencies and trading enterprises, 156 statutory boards and committees, as well 140 local government authorities. Since 2001-02, seven new agencies and two trading enterprises have been created (in net terms).

Table 1 Complexity of Government	Western Australia		
	Western Australia	New South Wales	Queensland
Agencies & Authorities	163	118	32
Boards & Committees	156	97	54
Local Government	140	152	73
Total Government Entities	459	367	159
Source: Respective State Government Services			

It is not clear that the more complex structure of Western Australia’s public sector yields a better level of public service. This is of particular concern for the WA business community, as its members routinely deal with a large number of (often overlapping) regulatory, taxation, planning and development agencies. Such a complex structure makes it difficult for government to focus on key needs and priorities, and can incur significant costs, as well as creating a range of management and accountability problems such as:

- a reduced ability for the public sector to allocate its resources efficiently;

¹⁰ Economic Audit Committee. 2009. *Putting the Public First: Economic Audit Committee Final Report*. Accessed online at <http://www.dpc.wa.gov.au/>

- excessive competition between agencies for resources and influence;
- inconsistent or incompatible policy objectives between agencies;
- complex lines of reporting to Ministers;
- duplication of services and administrative burdens;
- blurred lines of accountability and responsibility; and
- more complex, time consuming, contradictory and confusing relationships between government and business.

Structural reform to the public sector has the potential to be an important first step in eliminating these concerns, and improving the efficiency of the sector. Given the complex nature of the public sector in Western Australia, this would likely involve an overall reduction in the number of government agencies, enterprises and committees.

A full review of the size, scope and activities of government in Western Australia is needed, to identify agencies which do not perform a core role of government, or may no longer be relevant.

Such a review should take into account the following guiding principles.

- Activities should be regularly reviewed, the results published, and programs which are no longer valuable or relevant to a core role of government should be abolished.
- Services which can be delivered more efficiently or effectively through the private sector should be contracted out.
- Responsibilities for policy development, regulation and service delivery should be separated wherever possible in order to limit conflicts in the interest and objectives of agencies and ministers. Service agencies should not regulate themselves, competitors or potential competitors, and external agencies should provide objective analysis of public sector agency performance.
- Within these separate spheres of policy development, regulation and service delivery, agencies and departments which share similar core objectives and client bases should be combined under a single agency or authority. Priority should be given to departmental and agency mergers which offer likely efficiencies through pooling or synergies of skills, economies of scope and shared administrative costs.
- Government businesses should operate according to clearly determined objectives and parameters. Where community service obligations and standards are imposed, these should be fully and transparently funded from general government and, if in a competitive or potentially competitive market, made contestable.
- Trading enterprises should operate with a commercial focus, aiming to make an appropriate return to government as owner and as tax collector while abiding by government policies on competitive neutrality and other competition policy requirements, and policies such as competitive tendering and contracting.

When considering reform to the structure of the public sector, government should look at all options, including amalgamation, functional reviews, privatisation and contracting out.

CCI believes government should adopt a structured approach to a review of its role in the economy, to determine whether direct government involvement in certain markets is justified. CCI believes there are a number of government agencies and boards that should be investigated as options for privatisation or greater private sector involvement, or abolished or absorbed into other government agencies.

Review of Office of Shared Services program

CCI had long called for a shared services model of internal service delivery in the WA public service, as a way of eliminating duplication and increasing efficiency for functions which need not be duplicated between agencies. This was also a key recommendation of the EAC process, and was embraced by the Liberal Government upon its election in 2008 when the Office of Shared Services was formed.

However, the process did not end up delivering the outcomes and efficiencies it could have, and was eventually scrapped – at significant cost to tax payers.

In principle, a shared services service delivery model should be able to deliver efficiencies for government, and should not be completely ruled out as an option as part of a program of public sector reform. But as a first step, government must commit to a full review of the Office of Shared Services process to determine what caused it to fail.

Management and Governance Reform

Reforms to public sector management will also ensure that the sector operates efficiently, and that agencies and individuals are empowered to make decisions and take responsibility for their actions.

The EAC report discusses at great length the issues with public sector management practices and governance, and recommends a comprehensive program of reform designed to improve flexibility and enhance accountability. Since then, small changes have been made to the *Public Sector Management Act 1974*, concerning the role of the Public Sector Commissioner and public sector standards. In May 2013, the State Government announced that further changes to the *Public Sector Management Act 1974* would be made to introduce provision for involuntary redundancies as an option of last resort, with Western Australia becoming the last jurisdiction in Australia to introduce such provisions. However, more needs to be done to modernise the employment practices of the WA public service.

The remaining findings of the EAC should be implemented to address these issues. In conjunction with a structured program review of the WA public sector, these reforms should deliver ongoing savings to Western Australian tax payers and allow government room to implement other reform priorities rather than continuing to spend scarce tax payer funds in an inefficient manner.

Governance and accountability framework

The public sector in Western Australia would benefit from the introduction of a whole-of-government approach to accountability and governance. Such a framework would help support planning and service delivery, promote integration and collaboration between agencies and allow for a greater focus on agencies' strategic direction and priorities through a more co-ordinated effort amongst public servants.

The EAC found that most government agencies had centralised decision-making structures, largely caused by a lack of accountability mechanisms and limited penalties for poor performance. Broadly speaking, frameworks would result in devolved authority and decision making powers.

To address this problem, the EAC recommended that all public sector agencies should develop (or refine existing) a governance and accountability framework that incorporates:

- the application of an integrated framework and cycle of divisional or area planning, monitoring and evaluation linked to performance reporting;
- project management approach undertaken by divisions or areas for key priority areas, programs and initiatives to support quality planning and implementation;
- divisional or area officers being expressly responsible for the governance arrangements, principles, processes and practices of the relevant division or area and they are embedded, fully understood and applied by staff, and;
- a comprehensive framework of delegations and authorities that leave no doubt as to scope and nature of responsibilities delegated and to which positions/levels.

Review of agency KPIs

A devolution of accountability and decision making authority can only be successful if government agencies are encouraged to review and adjust their key performance indicators (KPIs). This will allow both government and the public more generally to have a clear understanding of whether agencies are meeting their stated outcomes, and areas where improvements are necessary.

At present, it is unclear whether the KPIs for a number of agencies are appropriate, or provide a meaningful indication of their performance. Agencies' KPIs are often based upon client or community perceptions of their performance, and the effectiveness of agency-specific processes. As a result, these indicators do not provide meaningful insight into whether agencies are delivering improved outcomes. The accuracy of such indicators is also questionable, given that they are highly subjective, and likely to be inconsistent over time. It is also difficult to assess agency performance against KPIs over a period of time, as reporting methods or the indicator itself has often changed.

A more appropriate set of KPIs would assess agencies' performance against the achievement of outcomes, as well as benchmarking performance against similar agencies in other jurisdictions, or private sector providers.

To address these issues, the EAC recommended all departments and agencies refine their existing reporting regimes to ensure they are consistent across outcome areas, and that all KPIs are reflective of the scale and risk of the particular activity they are assessing. Indicators should also follow best practice in so far as they are specific, measureable, achievable, relevant and timely. There may also be a need to reassess the use of customer satisfaction surveys, which may not be the most appropriate way of assessing performance for some government functions.

A more flexible public service

A reformed public service, with greater accountability and a more meaningful set of KPIs, can only deliver improved outcomes for the state if changes are made to public service flexibility. The EAC report found that the public service is characterised by a culture of compliance and risk aversion, rather than a focus on outcomes – a culture which is driven by in large by the prescriptive and inflexible legislation governing public sector employment.

In this context, CCI considers the recently announced changes to the *Public Sector Management Act 1974* an important step. By removing the provisions which guarantee a “job for life” for public servants, the State Government has kick started the EAC's recommended approach to increasingly flexibility and accountability amongst the public service. However, more needs to be done to improve the flexibility of the public service.

A key priority should be the removal of the freeze on attraction and retention benefits in the public service. These benefits can and should be used to attract high quality resources to key roles within the public sector, and act as an incentive or reward to high performing staff. This would bring public sector employment practices further in line with the private sector. While there should be some sensible limits in place, and benefits should be subject to review to ensure they are appropriate, public sector managers should have a wide array of options available to them if there is a demonstrated need to use benefits to attract or retain staff. This was a key recommendation of the EAC.

There must also be changes to the way the performance of public sector staff is assessed, and breaches of public sector standards dealt with. In particular, processes should be transparent and encourage staff development, while rewarding substantiated high levels of performance. Meanwhile, the processes for substandard performance should be reviewed to ensure they are simple and effective. These processes should be universal to all public sector employees, all of whom must be treated fairly and consistently. The EAC's recommendations on this issue should be fully adopted.

A more adaptive Senior Executive Service

These issues are particularly pertinent for the Senior Executive Service (SES) – as this group of public servants represent the key body of knowledge and decision making in the public sector and represent important relationships with the business community. A key element of developing a stronger SES is to ensure salary and benefit packages are competitive with similar kinds of packages on offer from private

sector organisations. The skills required of a member of the SES are likely to be similar to those of an executive manager in a private sector organisation, yet government agencies are unable to offer flexible salary packages that could enhance the attractiveness of taking on a position in the public sector. Senior public servants should also have specific performance targets as part of their remuneration packages, in line with private sector best practise.

As part of an enhanced benefits package, members of the SES should also be subject to performance management, in line with their performance against these objectives. As the gatekeepers of major public decision making, members of the SES should be subject to regular, objective, performance-based feedback; and be rewarded and penalised in line with their performance. An appropriately designed system of performance management would enhance accountability, encourage innovation and push SES members to strive for stronger performance and the associated rewards.

Government Funds

While the vast majority of state government funds are directed from and to the Consolidated Revenue Account, in recent years the State Government has created a number of special purpose funds to house tax payer money. At a time where government resources are becoming increasingly strained, CCI believes a review of the relative efficiency of operating special purpose accounts which tie up resources is warranted. In particular, the Royalties for Regions Fund and Western Australian Future Fund should be examined to determine whether they are delivering the best outcomes for WA taxpayers.

Royalties for Regions Fund

The Royalties for Regions Fund is established under the *Royalties for Regions Act 2009*, and receives an annual appropriation equivalent to 25 per cent of the State's onshore mining and petroleum royalties. The proceeds of the fund are directed at projects and programs in Regional Development Commission areas in Western Australia.

The Fund has three subsidiary accounts, and provision for additional subsidiary accounts that can be created for specific purposes. As of 30 June 2013, the Royalties for Regions Fund has a balance of \$881 million, following receipts of \$1.27 billion and payments of \$1.08 billion over the course of 2012-13. Provisions in the legislation limit the closing balance of the fund to \$1 billion. The 2013-14 Budget revealed that the Royalties for Regions Fund is expected to expend \$4.8 billion over the current forward estimates period, of which \$207 million (4.3 per cent) is administrative costs.

CCI has long held concern about the efficiency of the Royalties for Regions fund. While there is recognition of the need to invest in the regions after years of underinvestment by successive governments, it is unclear that Royalties for Regions represents the best way to achieve this. It is important that funds are being directed towards projects that will deliver the greatest benefits to regional communities. There is little transparency about where the funds are currently being directed and it is unclear whether funds are being used for priority projects. In the immediate term, this must be addressed to ensure scarce tax payer resources are delivering projects which produce an economic return and enhance the overall efficiency and productivity of the state.

Assuming no change to the current policy of 25 per cent of royalties being appropriated into the Royalties for Regions Fund, the amount of revenue being directed into the Fund will rise from three per cent of total State revenue in 2008-09 to 5.7 per cent by the end of the current forward estimates period. CCI believes this is an unsustainable situation in the long-term, particularly as:

- little change is likely to the GST distribution process, which results in the state "losing" over 80 per cent of its mining royalty revenue through lower GST grants than would otherwise be the case;
- royalties will continue to grow in importance to the state's general revenue base; and,
- the State Government's fiscal capacity will come under increasing pressure.

The Royalties for Regions Fund has been operating for five years. CCI considers the time is right for an assessment of the relative merits of continuing the Royalties for Regions policy from an economic efficiency perspective, considering the position of the state's finances (see Economic and Fiscal Context).

Western Australian Future Fund

The Western Australian Future Fund (WAFF) was established in the 2012-13 Budget, and operates under the *Western Australian Future Fund Act 2012*. The Fund is designed to capture some of the return on the

state's finite resource assets for future generations. WAFF is currently in the "seed accumulation stage", receiving some \$1 billion in funding between 2011-12 and 2015-16 from the Royalties for Region Fund (in relation to an efficiency dividend and the dividend of the change in royalty rates for fines iron ore); and will receive an annual appropriation of at least one per cent of the state's royalty income each year from 2016-17 onwards.

Financial modelling indicates that this fund will be worth \$4.7 billion in 2012-13 dollars upon its maturation in 2031-32, when legislation permits it can begin to be drawn down to fund economic and social infrastructure. The Fund is managed by WA Treasury and WA Treasury Corporation, and is permitted to invest in relatively safe, low yield assets like government and highly-rated corporate bonds.

CCI produced a policy paper discussing the issues surrounding sovereign wealth funds in early 2012.¹¹ The paper found that while there was some merit in creating a fund from an intergenerational wealth perspective, the pre-conditions for establishing a fund were not evident in Western Australia. Generally speaking, wealth funds have been created in jurisdictions with low or negative government debt positions, very high rates of revenue generation from non-renewable sources and not at times where there are capacity constraints in the economy. In 2012, and today, Western Australia does not meet any of these criteria.

The viability of the WAFF should be examined as part of this inquiry. CCI believes that in an environment of scarce government resources, quarantining funds which could be used to build economic capacity today and to pay down debt is not the best use of scarce tax payer resources. The intergenerational wealth transfer effects that the WAFF is seeking to generate can be made through improvements in the economic capacity of the Western Australian economy today, which would provide more jobs and wealth in the future.

¹¹ Chamber of Commerce and Industry of Western Australia. 2012. *Examining the Issues of Sovereign Wealth Funds*.

Asset Privatisation and Governance

Over a number of decades, there has been increasing recognition that government's role in infrastructure provision is changing. Increasingly sophisticated financial models, higher standards of governance in both public and private sectors, and constrained government finances have led a number of jurisdictions, around Australia and the rest of the world, to pursue alternative asset ownership models which move infrastructure off government balance sheets and into the stewardship of the private sector.

Historically, infrastructure has always been viewed as a public good provided by the government for the benefit of the broader community. However, infrastructure assets do not necessarily operate efficiently in the hands of government. Private sector operators, with a profit maximisation objective, are better placed to operate infrastructure that requires efficiency. This can include assets such as ports, water and energy infrastructure.

There are a range of privatisation models that can be employed to achieve this outcome. This includes recycling capital from privatisation, bundling assets and selling them off, assets being purchased by superannuation funds and privatisation through longer term leases, such as the case of port privatisation in New South Wales and Queensland.

Asset privatisation in Western Australia could result in a more efficient framework that ensures the wealth generated from assets most benefits the community. A more efficient operating model for key infrastructure assets also has broader benefits to the state's economy; driving productivity and reducing bottlenecks. In recent times, Queensland and New South Wales have shown the potential benefit of asset privatisation, through the privatisation of the Port of Brisbane as part of the Queensland Asset Sales programme and the privatisation of Port Kembla and Port Botany. Both ports were sold through a 99 year lease with capital recycled into other infrastructure assets.

There has also been limited long term prioritisation of public infrastructure planning in Western Australia in recent years. The result of this is unacceptable cost blowouts and delays in delivery of major projects. Infrastructure planning in the State has been left scattered around various government agencies from the Office of Strategic Projects in Treasury, the Department of Planning and the Infrastructure Co-ordinating Committee (ICC). Planning across major resource infrastructure projects tends to go through the Department of State Development as the lead agency. A lot of the infrastructure investment occurs from major resource projects that initiate secondary infrastructure impacts such as housing and services.

There is also no clear prioritisation governing the development of infrastructure in WA. Many infrastructure projects in WA are announced as political decisions without undergoing a thorough cost benefit analysis. Prioritisation also needs to take place where investment decisions around social and economic infrastructure need to take place.

The lack of prioritisation has led to WA missing out on significant funding for infrastructure projects from Infrastructure Australia (IA). In the 2013-14 Commonwealth Budget, WA received only 6 per cent of the total infrastructure funding, which was significantly less to what other States received. Infrastructure Australia only committed to contributing \$500 million to either the light rail or the train to the Perth Airport subject to a business case. This is largely due to a lack of an infrastructure strategy to guide infrastructure planning in the State. The 2009 Economic Audit Committee report recommended long term planning and improving the role of the ICC to advise government on infrastructure priorities as part of its review. To date, none of these changes have been implemented.

The recent recommendations from the Infrastructure Finance Working Group (IFWG) report recommended that governments review existing assets to identify those that have the potential to be transferred to

private ownership as way to free up the state's balance sheet. This could lead to productive, allocative and dynamic efficiency gains over the longer term.

CCI believes the ERA is well placed at this point in time to conduct a review of the state's government-owned infrastructure assets and assess those which could be operated more efficiently by the private sector.

Regulatory Reform

Government regulatory intervention in the state's economy is seen as a priority area of reform for both the business community and the State Government. The State Government's most recent attempt at comprehensive regulatory reform, the *Red Tape Reduction Group*¹², has largely remained on the shelf, and represents a strong starting point for regulatory reform priorities.

CCI also believes that the ERA, in line with its new function as an advisor to government on microeconomic reform, could assume the role of regulatory gate keeping from the WA Department of Finance. The ERA is better placed to act as the gatekeeper, being an independent advisor to government on regulatory issues. In assuming the role, the ERA should give regard to the national Regulatory Impact Assessment protocols developed by the Council of Australian Governments (COAG), as well as the Productivity Commission's report on benchmarking Australia's Regulatory Impact Assessment processes¹³.

Broadly, the ERA should examine new items of regulation proposed by government and consider whether:

- the case for regulation is strong enough to warrant government intervention; and
- in circumstances where government intervention is warranted, that regulations are constructed in the most efficient and effective manner.

More broadly, CCI considers there are a number of areas of reform that could be adopted by the State Government to improve the efficiency of the state's economy.

COAG Reforms

The Council of Australian Governments (COAG) process contains a number of significant areas of reform that CCI believes are worthwhile in the context of deregulation and streamlining for business – particularly those operating across multiple jurisdictions. The *Seamless National Economy* agenda is an important area of reform for the Western Australian economy through the COAG process that remains incomplete, while the *Business Advisory Forum* process appears to have stalled. The Productivity Commission's review into the benefits of the *National Competition Policy* agenda, which preceded the *Seamless National Economy* and *Business Advisory Forum* reform agendas highlights the gains that can be made through national reform of this nature.¹⁴

However, Western Australia is yet to fully implement the reforms that it has agreed to under each of these three national COAG agreements. CCI considers it appropriate that these areas of regulatory and competition reform be considered a high priority for implementation, acknowledging that they will deliver benefits to the state's economy and for the business community.

¹² WA Treasury. 2010. *Reducing the Burden: Report of the Red Tape Reduction Group*.

¹³ Productivity Commission. 2012. *Regulatory Impact Analysis: Benchmarking. Productivity Commission Report*. Accessed online at <http://www.pc.gov.au/>

¹⁴ Productivity Commission. 2005. *Review of National Competition Policy Reforms: Final report*. Accessed online at <http://www.pc.gov.au/>

Outstanding *National Competition Policy* reforms

While the *National Competition Policy* agenda has been subsumed into the *New National Reform Agenda*, the WA Government is yet to implement all of the agreed reforms. These include:

- the need to fully deregulate retail trading hours laws in WA, which currently impede competition by prescribing when shops can trade and by allowing some stores to trade outside of regulated hours as long as they are ‘small’ and/or located in certain areas (discussed further in Retail Trading Hours and Product Regulations);
- removing Western Australia’s archaic potato marketing regulations (the Potato Marketing Board), which restrict competition by allowing the State Government to restrict the availability of land for growing potatoes for fresh consumption, and an ability to fix the wholesale price of such potatoes, while requiring that they be sold to the Government’s statutory marketing authority; and
- liberalising the state’s fuel pricing regulations, which impede competition in petrol retailing by requiring that retailers fix their prices for at least 24 hours and notify these prices to the Government, and the setting of maximum wholesale pricing for fuel. The State Government should also give consideration to abolishing *FuelWatch*, which has not created the downward pressure on prices it was intended to.

Outstanding *Seamless National Economy* agenda reforms

Western Australia is not alone in having outstanding *Seamless National Economy* agenda reforms. However, these reforms have the potential to significantly reduce compliance costs for businesses, particularly those operating in more than one jurisdiction. These reforms include:

- adopting a national system of occupational health and safety regulation. While CCI supports a national push to harmonise OHS legislation and regulations, it is unclear that the benefits fully outweigh the costs. This needs to be subject to further analysis to determine whether the cost to business of adopting new regulations and codes is too great for the initiative to be worthwhile;
- adopting a national approach to occupation licensing will allow for labour resources to transfer more readily between the states and territories, helping ease skills shortages in Western Australia; and
- developing a single “construction code” covering builders and plumbers. While the State Government is conducting a review into the plumbing industry, this should lead to the development of the single code upon its completion.

Outstanding *Business Advisory Forum* reforms

The role of the COAG *Business Advisory Forum* is not clearly defined. However, the process has identified a series of potential reforms which CCI considers worthy of consideration by the State Government; either to implement in its own right or to be placed on the broader COAG agenda. These reforms include:

- a national approach to environmental and major approvals, through the adoption of a consistent national model of environmental approval that removes one layer of government (either Federal or State) and greater use of “strategic assessments” (discussed further in Major Project Approvals). The Productivity Commission is also completing a report into this matter; and
- the removal of non-complimentary climate change initiatives at a State-level, acknowledging that it largely duplicates Federal Government policy initiatives.

Regional Air Route Regulation

Western Australia's intrastate aviation market is subject to government regulation that grants individual airlines a monopoly over particular routes, under agreements that guarantee a minimum level of service on that route. The regulation exists largely to ensure regional Western Australians have access to aviation services.

Prior to 2001, the Western Australian intrastate aviation industry was not regulated. With the collapse of Ansett, the State Government imposed regulation on certain routes to restrict competition. Solo carriers were guaranteed protection from competition if they continued air services to less travelled regional areas such as Albany, Geraldton, Laverton and Meekatharra.

Qantas dominates the Western Australian market, offering more than double the capacity of a combined Virgin Australia/Skywest from Perth to regional destinations. Qantas operates scheduled services to eight destinations in Western Australia from Perth to Broome, Port Hedland, Karratha, Learmonth, Paraburdoo, Newman, Geraldton and Kalgoorlie. However, the acquisition of Skywest has almost doubled Virgin Australia's Western Australian regional capacity direct from Perth. Though competition has increased in some areas, a range of regional routes remain regulated.

CCI is concerned that the current regulatory framework is not in the public interest, especially in the current economic climate where WA is the nation's fastest growing economy and experiencing strong population growth. This policy is disadvantageous to Western Australia as domestic flight capacity is lower than cities on the eastern seaboard, resulting in higher prices.

For example, a flight from Perth to Albany – a regulated route – costs on average \$224.50, which equals \$0.59 per kilometre travelled. By comparison, a flight from Perth to Bali costs on average \$219, which equals \$0.08 per kilometre, or 13 per cent of the cost per kilometre travelled. A flight from Perth to Kalgoorlie on the other hand costs on average \$229, equating to \$0.38 per kilometre travelled. While there are many drivers of the cost of air travel, the difference between this regulated route (Perth to Albany) and deregulated routes (Perth to Bali and Perth to Kalgoorlie) is significant.

The State Government should investigate options for the deregulation of intrastate air services, to encourage the competition that is needed to support the State's economic growth. This includes more airlines allowed into the market to ensure lower fares, the best possible service and more frequent and flexible flights among competing airlines that will benefit businesses, regional communities and travellers.

Liquor Reforms

Liquor licensing and control is subject to significant regulation, which aims to reduce the harm associated with excessive consumption from a public interest and health perspective. However, 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 to service customers, and the impact licensed venues can have on the amenity and vibrancy of an area.

In particular, changes should be made to the “Public Interest Test” for new applications to shift the burden of proof away from the applicant and to the community that will be potentially impacted. The mindset of the Liquor Commission should be that it is up to the community to prove that a new licensed premises will have a negative impact, rather than on the applicant to prove that it will not. This system also produces an implicit bias against potential new entrants to a particular area, promoting existing businesses and reducing competition.

The State Government has commissioned a review into the *Liquor Control Act 1988* which is due to report by the end of this year. CCI considers changes should be made that seek to remove any unintended anti-competitive consequences, and shift the regulatory pendulum more towards meeting the needs of consumers and businesses.

Industrial Relations Framework

Industrial relations regulate the manner in which employers are able to manage and interact with their employees. The June quarter 2013 edition of the *Westpac-CCI Survey of Business Expectations* found that industrial relations regulation was the second highest on a list of regulatory concerns, with some 52 per cent of businesses rating it in the top three (out of nine) areas of concern.

Western Australia is the only state to retain its own industrial relations system. Most private sector businesses are covered by the Federal IR system, leaving only a small percentage of mostly small business employees covered by the State system in the private sector in Western Australia. The State system is also the legislative framework covering public sector employees in Western Australia, as well as non-trading entities. Having two industrial relations systems causes confusion amongst employers and results in a duplication of costs for government and business. The State system is also outdated and lacks the flexibility needed by small business in order to effectively manage and engage their staff.

In addition, the distinction between what constitutes a State and National system employer can be confusing. There is great uncertainty over whether some types of businesses such as charitable organisations and local government authorities are covered by the federal or the state systems. Changes to the funding arrangements for the not for profit sector can also result in these employers shifting in and out of the State and National systems depending upon the mix of trading and non-trading activities. This imposes a further cost burden to the businesses who can least afford it, of having to potentially comply with two sets of legislation.

CCI believes there is no justification for Western Australia to retain its own industrial relations regime, and that the state should refer its industrial relations powers to the Commonwealth Government.

The arguments in favour of a full referral of the state's industrial relations powers are as follows:

- Referral of power removes current jurisdictional uncertainty for all parties – given the various means of structuring an employing entity and transient case law as to what constitutes trading activities employers often need to seek costly legal advice in an attempt to provide clarity as to which system applies. However due to the nature of this definition, clear advice as to which system applies is not always possible. These businesses are often forced to “jump” between jurisdictions and this comes a large cost to these employers having to comply with differing legislations year-to-year.
- A single IR system covering all employers and employees in Australia ensures there is a fair, efficient, universally acceptable and consistently applied regulatory framework for all business in Western Australia
- A single IR system creates an even playing field across the whole of Australia by removing differing state laws. This would promote business efficiency, competition and allow all business in Western Australia the opportunity to succeed on a national and international scale.
- The rationalisation and simplification of IR and related legislation will remove unnecessary government duplication of regulation and “red tape”, and would promote higher levels of understanding, awareness and compliance. It is costly and unnecessary for the State Government to duplicate a industrial relation system where the vast majority of businesses are regulated by the Federal system.
- Referral of powers removes duplication, which would result in an instant, significant cost savings for State Government by allowing for the winding up of a number of government departments. The cost savings would be found across various departments:

- the Western Australian Industrial Relations Commission (WAIRC) could be almost completely removed, with only a small core function left to deal with public sector industrial relations issues. The WAIRC has five full time Commissioners, a President and a number of support staff, and it occupies at least three floors of the 111 St Georges Terrace Building (including the Registry). Given that the functions of the WAIRC can easily be undertaken by the Fair Work Commission all these expenses to the State Government are not necessary.
- the Department of the Registrar, which in its yearly report states for the 2011-2012 financial year cost \$10.5 million dollars to operate. The functions of the Registrar would be entirely redundant and any services required to support the public sector industrial relations could be absorbed by other departments in the event of its removal. The majority of the costs of the Registrar could be saved by referral;
- the Industrial Magistrates Court would become entirely redundant with a referral and the its costs as a whole could be saved by its dissolution; and
- the Labour Relations Division of the Department of Commerce could be almost fully downsized to service only the public sector needs remaining and could be moved back to the Department of Premier and Cabinet where it was located historically.

As part of its election platform the State Government identified changes to the State IR system. These changes would incur additional cost to Government and businesses. In making these changes additional expenses will be incurred in drafting and implementing legislation, including the costs associated with educating employers and employees of the changes.

A cornerstone of the proposed amendments is the modernisation of the existing award system. This would increase the workload of the WAIRC, potentially requiring the engagement of additional Registry staff to assist in carrying out the process. There will also be a cost to unions and employer associations in their necessary involvement in this process.

The maintenance of two industrial relations system will also maintain a level of competitive advantage and disadvantage for employers operating in the same industry who have to comply with different rates of pay and penalty rates for non standard hours. This means that for employers in particular industries, some employers have a competitive advantage over others. If the State Government chooses to continue to maintain a State IR system, CCI believes a number of changes should be made to the existing State IR framework to reflect the needs of small business in the state. A review of the State system is necessary in the absence of referral but will add another layer of unnecessary cost to the system, a referral of powers will reap a substantial saving in the tens of millions while a review will cost the State Government further.

One area in which the State Government should take action is to amend the Public and Bank Holiday Act. The current legislation results in some businesses being obliged to recognise up to fourteen public holiday days per year, instead of the ten intended by the legislation. This problem has arisen out of the interaction between the Public and Bank Holidays Act 1972 (WA) and the Fair Work Act 2009 (Cth). This particularly affects businesses that operate seven days a week, who are required to pay public holiday penalty rates on two days (rather than one) where a public holiday falls on a weekend. This additional cost to business should be removed by amending the Public and Bank Holiday Act 1972 (WA). By amending the legislation to provide for the substitution of a public holiday where it falls on a weekend, rather than an additional day, this is an unintended consequence of the legislation and an unnecessary cost burden to all business in Western Australia that can be easily rectified by the State Government.

Taxi Industry Regulation

The taxi industry in Western Australia is regulated through the *Taxi Act 1994* and the associated *Taxi Regulations 1995*. The current regulation of Perth's taxi industry could be responsible for higher prices and poorer service for customers than would otherwise be the case in a deregulated market. While the provision of a reliable taxi service may be viewed as an arm of coherent transport policy, CCI is not convinced that government should maintain its current level of intervention in the taxi industry.

Taxi operators must recover the cost 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 mean that a vehicle must operate for most of the week in order to cover capital costs - it would not be profitable to only run a vehicle when demand is at its peak, even though this is the most profitable time to run a taxi.

Numeric limits on the number of taxi licences and regulated minimum hours of operation mean that additional vehicles cannot be made available to service peak demand even if it were economic to run a peak-only service. The result is delays for customers wanting to use taxis at times when demand peaks, and in some cases failure to get a service at all.

CCI suggests that the ERA investigate the approaches that could be taken to deregulate the taxi industry in Western Australia, which would lead to greater competition and therefore enhanced reliability and lower prices for consumers.

Retail Trading Hours and Product Regulations

Retail trading hours are governed by the State's *Retail Trading Hours Act 1987* and the *Retail Trading Hours Regulations 1988*. The legislative environment sets out different categories of retail shops, which determines their trading hours and in some instances dictates which products can be sold at those times. Appendix one summarises the current system of product and hours regulation¹⁵.

Over time there have been changes to the retail trading hours regulatory regime, most recently in August 2012 with the introduction of Sunday trading from 11am to 5pm. Sunday trading in the Perth metropolitan area was a major positive step forward for deregulating retail trading hours. It has provided businesses and consumers with greater choice and flexibility. The September quarter *Curtin Business School-CCI Survey of Consumer Confidence* found that 78 per cent of Western Australians had taken advantage of Sunday trading, with the share rising to 84 per cent in the Perth Metropolitan Area.

However, 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. These arbitrary restrictions on businesses' ability to trade freely and in a competitive market stifle opportunities for growth and employment and discourage an entrepreneurial culture in WA.

CCI believes that in order to achieve the full benefits of deregulation these remaining restrictions on trading hours and products for sale need to be removed. While changes to retail trading hours are subject to an Act of Parliament, and would need to be removed via a legislated instrument, the regulations governing product restrictions can be changed at ministerial or departmental discretion, and should be the priority for abolition in the short term.

Since the introduction of Sunday Trading, it is unclear why the final steps towards full deregulation could not be progressed. CCI does not consider there a case for government restriction on the ability for retailers to sell their products and services to consumers based on the day of the week or time of the day. In this regard, CCI considers a final move to fully deregulate retail trading hours in Western Australia overdue and necessary to ensure business is able to compete on a level playing field.

¹⁵ See Appendix One: Western Australia's retail trading hours regulations.

Food Safety Compliance

CCI recognises that food safety regulations aim to protect consumers from potentially unsafe products, and that this is an important social objective. However, the current regime for food safety regulation and compliance monitoring is excessive, and does not deliver improved outcomes in terms of food safety standards. Food safety is regulated by five separate government Acts at a Federal and State level:

- *Food Act 2008,*
- *Food Regulations 2009*
- *Australian and New Zealand Food Standards Code*
- *Health (Food) Local Laws 2009*
- *Export Control Act 1982.*

Food safety regulation currently occurs at all three levels of Government in Australia. Over and above this regulation, private sector organisations often also impose additional compliance requirements on food processors. A lack of consistency in the interpretation of food safety regulations across Australian jurisdictions (both inter and intra) increases the costs to businesses. The audit and inspection process can be one of the most costly aspects to business associated with proving compliance to food safety regulations. Some food businesses undergo audit or inspection by a state and federal regulator in addition to audits for key clients and markets. A number of retailing businesses and fast food establishments have their own QA standards which they apply to suppliers, such as, BRC Global Standard and WQA Woolworths.

As a result, food processors face overlapping and at times inconsistent regulations. The information sought by the audits undertaken across three levels of Government and the private sector can be duplicated by up to 80 per cent, leading to excessive reporting requirements with significant direct and indirect costs with little benefit for food safety standards.

There is significant potential to reduce costs throughout the food supply chain by moving to a more appropriate level of mutual recognition of commercial and regulatory audit standards, possibly through the use of the Global Food Safety Initiative standards benchmarking process. A number of regulators in Australia have created memoranda of understanding and other agreements to facilitate the recognition of audits by other agencies, remove duplication in implementation of food safety standards and thereby the compliance costs for business. However, despite this progress, there remains a number of areas where there is a burden for business, and industry codes of practice are an appropriate option.

CCI recommends that the State Government should take full control of the application and monitoring of the *Food Act 2008*, removing Local Government from the process. Over the long term, the State Government should seek to place harmonisation of 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 in Australia.

Energy Market Reform

In its 2010 review of the wholesale electricity market, the ERA described WA's electricity market as being at a crossroads. Yet despite a large number of reviews, the WA electricity market, and to some extent the broader energy market, has not moved beyond this point.

There is significant uncertainty as to the direction of future energy policy, and particularly the role government, and government owned corporations, will play. The merger of Synergy and Verve Energy is one driver of uncertainty, as is the review of the wholesale electricity market being undertaken by the Public Utilities Office.

Overall the necessary changes to the energy sector to bring about greater competition, could have significant benefits. While the changes are politically difficult, they are likely to benefit most consumers. In both electricity and gas markets, consumers in the contestable market have benefited significantly through lower prices, and more flexible services targeted at their needs. Government will also benefit as risks are managed by the private sector and revenue is freed up for more productive investments.

Electricity Markets

Without incentives for private investment across the supply chain in the electricity market, government may find itself having to fund and take on further risk in electricity generation – actions it cannot afford.

Given that excess capacity currently exists in electricity generation, this diverts attention from the future investments in capacity that will be required. Additional generation capacity will be required as soon as 2015-16,¹⁶ suggesting investors need certainty about the future of the electricity market and the role that Government will play sooner rather than later.

Appendix two¹⁷ outlines the outcomes of numerous reviews of the electricity market. From this it is clear a number of proposals are particularly consistent: certainty over the role of government is required; cost-reflective tariffs are needed in the short term; and retail contestability is the missing element in driving wider competition in electricity markets.

Government's role in electricity markets

Ongoing uncertainty over government's role in the electricity sector is a critical issue that needs to be resolved.

In the capacity market Verve Energy's share has reduced from 89 per cent to a projected 52 per cent in 2014-15,¹⁸ reflecting a significant increase in competition. But at the retail level competition is still heavily restricted, with only those customers consuming more than 50 MWh per year able to choose amongst different suppliers. This effectively prevents retail competition for almost all household users, and 90 per cent of business consumers. Synergy remains dominant with 65 per cent of the entire retail market (by energy consumed) and 42 per cent of the contestable market.¹⁹

¹⁶ IMO 2013. Electricity Statement of Opportunities – June 2013.

¹⁷ See Appendix Two: Electricity market reviews and their recommendations

¹⁸ IMO 2013. Electricity Statement of Opportunities – June 2013.

¹⁹ Synergy Annual Report 2011-12.

Given their currently significant market shares, the Synergy – Verve Energy merger is likely to have a significant impact on the South West Interconnected System electricity market. Significant market share across the market, as well as unfair and anti-competitive behaviour in electricity procurement are serious risks that need to be appropriately managed through the proposed ring fence. Therefore, the anticipated outcomes of the merger, and post merger reforms need to be made clear. In addition, industry needs certainty that interactions between the generating and retailing arms of the new entity are competitively neutral.

While we are reassured by the Minister for Energy's remarks that the merger will lead to increased competition²⁰, without clear policy direction following the merger, industry is left with significant uncertainty.

CCI believes the government and the ERA must undertake a transparent analysis and consultation of post-merger options for increasing competition. This should necessarily include options for plant shutdowns, asset sales and capital recycling, splitting the merged entity into competing "gentailers", and/or complete privatisation. Without embarking on one of these options the merger process is unlikely to increase competition. The current excess of capacity provides the state with a unique opportunity to move to the next stage of electricity market reform while supply is relatively secure.

Cost-reflective tariffs

As demonstrated in Appendix Two, cost-reflective electricity tariffs have been consistently called for across electricity market reviews at the state and national levels. Cost-reflectivity is a key first step towards genuine retail competition.

In recent years government has recognised the need to move towards cost-reflectivity and should be applauded for its efforts to increase tariffs. However, actual tariff increases implemented consistently fail to reduce the estimated 21 per cent gap between regulated tariffs and the efficient costs of providing electricity.²¹ The state government has consistently pushed the pain of tariff increases into the future, as demonstrated by Table Two below. By appointing an independent regulator to set regulated electricity tariffs, government can take some of the politics out of tariff setting and align its procedures with other states.

For government the subsidy required to maintain electricity tariffs below cost-reflective levels has increased to \$420 million in 2012-13, a significant sum of taxpayer funds that could be invested more productively elsewhere in the economy.

In addition, electricity consumers in the SWIS continue to be charged the tariff equalisation contribution (TEC), to ensure the cost of electricity in WA's regions is the same as it is in Perth. Tariff equalisation is a social policy decision, and the TEC inefficiently adjusts prices for SWIS consumers to subsidise those in the regions. Should the government maintain tariff equalisation as a policy, it should be funded from direct revenue, not through the current cross-subsidy.

²⁰ <http://www.businessnews.com.au/article/Synergy-merger-to-increase-competition-Nahan>

²¹ ERA 2013. *Annual Wholesale Electricity Market Report for the Minister for Energy 2012*.

Table 2: Actual and estimated tariff increases 2009-10 to 2016-17

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Tariff increase in three year forward estimates				4.1	6	12	10	7
Tariff increase in two year forward estimates			12.9	5.6	12	10	7	
Tariff increase in one year forward estimates		25.9	22.3	5	5	7		
Actual tariff increase implemented	15	10	5	3.5	4			

Retail contestability

In each of its reviews of the wholesale electricity market, the ERA has made a strong case for expanding retail contestability. This is further supported by the majority of other electricity market reviews outlined in Appendix Two.

With 65 per cent of the retail market, government owned Synergy continues to hold a significant share of the market and with it a significant amount of collateral and risk in underpinning much of the state's generation. Without opening the significant and stable market for residential and small business consumers, independent retailers will be unable to secure significant capacity from generators, and government will continue to bear a significant amount of risk.

CCI strongly supports the ERA's call for a clear pathway to full retail contestability. Through its mixed market combining bilateral contracts, the reserve capacity mechanism and short term energy market, WA has a structure in place to help provide for efficient and effective competition. In concert with full retail contestability, regulated tariffs should be gradually removed after levels of customer churn increase to rates seen in more competitive markets (for example, Victoria). But even with regulated tariffs, retailers should be free to set prices lower than regulated levels (as occurs in the residential gas market).

Reducing peak demand and encouraging energy efficiency

Policies which enable electricity users to respond to peak demand and to improve energy efficiency are also recommended by a significant number of the reviews considered in Appendix Two.

Significant costs both in the capacity market and in the electricity network are incurred to meet demand for only small periods of the year – peak demand periods. To ensure Western Australia’s electricity system is as efficient as possible, peak demand needs to be addressed and accounted for in pricing structures.

The IMO’s 2013 Electricity Statement of Opportunities notes that the Individual Reserve Capacity Requirement, changes to the balancing market and the demand side programme have helped to reduce peak demand on the hottest days by almost two per cent of total peak demand.²² These results demonstrate how appropriate pricing mechanisms in the market can have a material impact on demand. In this case, the incentives at play are part of the reserve capacity mechanism, underlining how incremental changes to market design can have significant positive results. But we shouldn’t limit our thinking to participants in the capacity market. Time of use tariffs are a widely supported mechanism for encouraging smaller users to reduce demand during peak periods that should also be available for residential customers in a contestable market.

When combined with smart meters, time-of-use tariffs have proven successful at reducing peak demand, and reducing household electricity bills. In Western Power’s Perth Solar City project, households with smart meters with in home displays and time-of-use tariffs have reduced their annual electricity bill by \$115 to \$235, and a 13 per cent reduction in consumption during the “super peak” period.²³ If expanded to a wider range of households this could bring significant network savings while assisting households in actually reducing their electricity bills. This could provide significant relief as tariffs increase towards cost-reflective levels.

Gas Markets

On the supply side, growing demand for energy exports, liquefied natural gas (LNG) in particular, has created pressures in the domestic market, driving up the price of domestic gas and electricity, as well as shifting investment incentives. However, increasing LNG and gas prices, and changes to regulations, have also driven investment in domestic gas processing, including Apache’s new plant at Devil Creek and BHP Billiton’s Macedon Gas project, and in exploration for unconventional sources of gas. Furthermore, domestic supplies rely on export opportunities to deliver capital investment. Government should be careful not to discourage investment in exploring our energy resources.

To better facilitate the availability of gas to domestic users, including electricity generators, the Government should continue efforts to improve market transparency and ultimately to increase the liquidity of the domestic market. In particular, the gas bulletin board and gas statement of opportunities provide opportunities to better understand gas demand and consider options to improve liquidity in the future.

The gas bulletin board and statement of opportunities needs time to be refined and develop into a more useful snapshot of gas markets, ultimately to enable broader reform across the supply chain. Once more information is available, the Government should support a review of the feasibility of a short-term gas trading market in WA. Such a market is already emerging for major domestic users, demonstrating how the private sector can respond to market signals, but more is needed to understand how the market operates and the potential to secure supplies. For upstream gas producers the review of the North West Shelf Joint Marketing arrangements provides a useful opportunity to consider how best to secure domestic gas and export markets. Furthermore, the emergence of unconventional gas in the Canning and Perth Basins

²² IMO 2013. *Electricity Statement of Opportunities – June 2013*.

²³ Western Power 2013. *Perth Solar City Annual Report 2012*.

underpins the importance of market signals in driving greater production and opportunities for domestic and export users.

It is vital that the private sector be able to respond to market signals about commodity prices, and supply and demand for electricity. This will help ensure investment is made in a broad portfolio of energy technologies to ensure that WA has a secure supply of electricity in response to future uncertainty.

Renewable Energy Target

The Renewable Energy Target is a State impost that unnecessarily restricts energy options and increases costs, as shown in the ERA's inquiry into Synergy's costs. This has more recently been reflected in State Government concerns about distributed generation (particularly rooftop solar PV) and how to appropriately divide network costs amongst network users. CCI welcomes the Government's intent to commission the ERA to review how to meet Renewable Energy Target obligations at lowest cost and how to fairly determine network charges as a result of increased distributed generation.

Other Issues

Land Use Planning

Following a number of years of strong economic growth, and the prospect for strong growth in the years ahead, CCI considers now an opportune time for the State Government to conduct a review in to land use and planning across Western Australia. While CCI is not in a position to provide recommendations on this issue, it considers the industrial land development supply chain and the role of local government in land zoning laws as areas where there may be potential for reform.

Industrial Land Development

Strong economic growth has driven increased demand for industrial land in Western Australia. However, the supply of industrial land has not kept up with this demand. As a consequence, businesses looking for land to purchase to expand their businesses or for relocation are finding it difficult to obtain suitable parcels of land. In WA, LandCorp, the State Government's land development agency, is the primary developer of industrial land, however also has a profit-maximising focus as a government trading enterprise – resulting in what CCI considers to be a potentially conflicted strategic direction. Though the government intends to release more land in the future, private developers should also be encouraged to release land parcels to meet this supply.

One of the most significant issues facing industrial land developers in the state is that private land supply is held in small parcels with fragmented ownership, making the role of LandCorp crucial in building land supply to a sufficient scale. Though the State Government is addressing the future industrial land availability through the 'Economic and Employment Lands Strategy', CCI believes at this important phase of the state's economic development a review of the land development supply chain is warranted, with the aim to encouraging greater private sector involvement in the release of industrial land parcels and enhancing competition to drive industrial land prices down. The review should consider the role of LandCorp in the industrial land development supply chain in Western Australia, and whether there are reform options that can increase the level of private sector involvement.

Local Government Zoning Laws

In 2009, the State Government released a document entitled *Planning Makes It Happen – A Blueprint for Planning Reform*, which set out key strategic priorities for a range of initiatives to improve the WA planning system. This initiative provided a comprehensive framework to achieve more consistent, efficient and outcomes-based approvals processes, enabling the State Government to better manage economic growth. This document makes reference to Local Government's role in land use planning.

However, more needs to be done around the planning and zoning law decisions of local government. Local Government may not be the best placed layer of government to consider zoning of land, as the objectives of local government may not be best aligned to the various state planning strategies.

In WA, local government is responsible for enforcing local planning schemes and conditions of planning approvals. The Minister for Planning may give orders to local government or assume its powers in order to enforce the local planning schemes and approvals, which can lead to decisions being made about land zoning which may not reflect the best use of the land from an economy-wide perspective. One such example is the area surrounding the Kwinana Industrial Zone buffer, where a local government had sought to rezone land as residential despite it being in an area close to the edge of the buffer zone. While this was ultimately abandoned, it represents the potential conflicts of interest that exist in the current regime.

CCI considers it an appropriate time to investigate the appropriateness of local government zoning powers, in the context of fulfilling the state's planning strategy, particularly in the context of the local government amalgamations that are set to take place over the coming two years. Conducting a review along side the amalgamation process would ensure that any major reforms could occur concurrently and lead to reduced uncertainty for business.

Major Project Approvals

Project approvals represent a significant cost for business in Western Australia. Some businesses report that they require as many as a hundred approvals from numerous agencies at the Federal, State and Local Government levels.

At the State level alone, a major project is likely to require approval from the Environmental Protection Authority, Department of Indigenous Affairs, Department of Water, Department of State Development and the Department of Planning.

A number of initiatives are in train to improve approvals processes including the Department of Environmental Regulation's REFIRE program, the Department of Mines and Petroleum's Reforming Environmental Regulation (RER) program, and efforts to expand online tracking of approvals. However, approvals remain a significant burden. Importantly, businesses are not asking for less stringent environmental or other conditions in approvals. Rather, business needs a more efficient, effective and timely process – whatever the final decision.

Three issues are particularly prominent.

- Overlaps, duplication and inconsistency - Overlaps, duplication and inconsistency drive up the costs of project approvals, without providing additional protection to the environment or the local community.
- Timeliness - numerous issues affect the timeframes for major projects, improving approvals to make the process more efficient is one way to significantly improve timeframes for major projects and reduce opportunity costs.
- Procedural fairness - A fair and transparent approvals process also remains an ongoing concern for many project proponents in Western Australia. While some recent changes have been enacted to the Environmental Protection Authority's guidelines for environmental impact assessment to improve procedural fairness, CCI still has ongoing concerns that procedural fairness is not explicitly referenced.

These issues persist despite numerous reviews recommending ways to improve the approvals process in Western Australia and nationally. The 2009 Industry Working Group Review of Approvals Processes handed down extensive recommendations. These included the establishment of a single approvals process, but only the stage one recommendations have been implemented.

At the national level, the Productivity Commission recently published a draft report on Major Project Development Assessment Processes. The report finds that a one year delay in a major project could cost in the order of an additional \$700 million. The report recommends the establishment of a 'one project, one assessment, one decision framework', as opposed to a one-stop-shop model which it does not believe is viable. The report also strongly supports the use of strategic assessments, and the negotiation of bilateral agreements with state governments to reduce duplication. While these have been priorities for the Council of Australian Governments (COAG), no progress has been made.

Much of the work has been done to outline how the approvals process can be reformed, with significant potential benefits for project proponents and the state government. This burden can be significantly reduced by fully implementing the recommendations of the 2009 Industry Working Group Review of Approvals Processes, and by pursuing those cross-jurisdictional recommendations in the Productivity Commission's draft report.

Waste Management

Waste Management is an issue that has undergone little economic analysis in Western Australia.

As highlighted in the Robson Metropolitan Local Government Review, establishing new waste treatment facilities and employing strategies to reduce waste is a major State and local government issue. There is significant variation in the way waste is managed across WA, with local governments and private entities playing different roles even within the Perth Metropolitan Area. The review noted there could be significant benefits to having a single metropolitan approach to waste management, but no economic analysis underpins this conclusion.

Meanwhile in its 2006 Waste Management Inquiry, the Productivity Commission questioned the approach still being taken in WA to waste management – particularly the focus on waste minimisation targets and the use of landfill levies to achieve targets and raise revenues.

CCI believes waste management demonstrates many of the natural monopoly characteristics of other utilities, warranting further attention as to the appropriate regulatory approach. We believe further economic analysis is warranted to consider the scope to implement regulatory approaches that encourage greater competition, efficiency and innovation.

Local Government Reform and Amalgamation

Local Government Reform

The State Government's recent announcement of local government amalgamation in the Perth Metropolitan Area is a positive step for WA businesses. There is little reason for the state's existing structure of local government, with councils of 1,000 residents or less, to continue, and CCI is confident the State Government will honour its commitment to reduce the number of councils in the Perth Metropolitan Area from 30 to 14 by 1 July 2015.

However, the local government reform agenda cannot stop there. While scale economies can be generated by larger, more efficient and better managed local governments, businesses will still be required to deal with inconsistency in the interpretation of regulation and planning regimes. CCI is not convinced that local government should be granted the flexibility to interpret State and Federal Government regulation, and has made reference to specific areas of concern throughout this document.

CCI believes Western Australian businesses would benefit most from consolidation of local government planning regimes, consistent application of regulations, and through streamlined approval processes.

Regional Local Government Amalgamation

Western Australia's regional areas are home to some 110 local government areas, some with a few hundred residents or less. In certain regional centres this infrastructure is at critical capacity levels. In October 2005, the then Minister for Local Government and Regional Development asked the Local Government Advisory Board (the Board) to conduct an inquiry into local government structural and electoral reform. The findings of the research were submitted to the Minister in March 2006 and then for public comment later in the year. The critical findings included:

- many local governments are facing severe demographic pressures that are threatening community sustainability;
- staff attraction and retention is a considerable challenge for many local governments and is threatening their organisational sustainability; and
- local governments are not generating enough revenue to meet their operating demands and are likely to have difficulty in meeting long term infrastructure funding needs.

The WA government recently announced that the Perth Metropolitan Area's 30 councils will be reduced to 14 by 1 July 2015. However, with regional local government facing similar issues in terms of scale economies and revenue challenges, CCI considers it appropriate that a similar review be undertaken for regional Western Australia to identify opportunities for amalgamations that will deliver improved capacity and economies of scale.

CCI believes that there are substantial benefits that could be achieved through local government amalgamations in the regions. This will result in a more comprehensive and structured approach to delivering local government services.

Education and Training

As the operator of Western Australia's education and training system, the State Government plays an important role in ensuring the state has the appropriate skills, expertise and mindset to fill current and future workforce requirements. While the state's education system functions well, CCI believes further reforms need to be pursued to ensure that scarce resources are being directed in their most effective manner.

Independent Public Schools

Western Australia's Independent Public Schools (IPS) program has been recognised as a substantial improvement over the previous, centrally managed model. The success of this reform is such that other states and territories, and the Commonwealth Government, have committed to adopting the model.

The IPS Program provides public schools with the autonomy and flexibility to make key decisions on how to meet the specific needs of the communities they serve. This autonomy should be extended by reforming the current pay levels and structures, so that remuneration is based on performance and provides, for greater career progression for teachers,.

It will also be necessary to ensure the schools currently in the Program are operating effectively, and help promote the benefits to schools not yet participating. A review of the Program should be undertaken to measure the Program's progress against key performance indicators, to highlight the Program's strengths and ensure that positive outcomes are being achieved.

Mentoring and assistance should be provided to schools participating in the IPS Program to ensure schools are fully benefiting. Mentoring and support should also be provided to schools not yet engaged in the Program to assist them to meet the program criteria for entry. However in this regard, it is also important to ensure that schools seeking to enter the program are required to meet performance and financial benchmarks, to ensure the integrity of the program.

Operation of State Training Providers

State Training Providers (STPs) play an important role in the training market by providing affordable training to students and industry. This training needs to provide students with the skills and knowledge to be able to perform effectively in the marketplace. Reform to the current operating model of the publically funded STPs is required to ensure there is the capacity to deliver a skilled workforce to meet the changing needs of industry.

Industry expects lecturers to have appropriate qualifications, up to date knowledge and skills relevant to the particular industry sector they are lecturing in. Attention must also be given to the range of services offered by STPs, particularly in regional areas, where on occasion, essential courses for industry have not been offered due to staffing issues. STPs need to improve their operations through better industry engagement to ensure a relevant training product.

With the commencement of the Future Skills agenda for publically funded training in Western Australia, public providers of training need to ensure they are prepared for competition in an open market. To continue to be relevant, STPs must offer courses that reflect changing industry standards and be guided by current business practices. This means creating effective relationships and partnerships with local industry to develop course content suitable for market needs.

Appendices

Appendix One: Western Australia's retail trading hours regulations

Categories of retail shops	Trading hours	Ownership/employee restrictions	Product restrictions	Other restrictions
General retail shops	Mon – Fri 8am to 9pm Sat 8am to 5pm Sun 11am to 5pm Public holidays 11am to 5pm Cannot trade on Good Friday, ANZAC day or Christmas Day.	Not applicable	Not applicable	Not applicable
Small retail shops	24 hours a day, every day of the year.	Can be owned by up to six people who operate no more than three retail shops, in which up to 18 people work at any one time.	Small retail shops may sell any goods other than motor vehicles.	If you want to trade as a small retail shop you must apply for a certificate.
Special retail shops Special retail shops include: <ul style="list-style-type: none"> ▪ pharmacies; ▪ garden nurseries; hardware and home improvement shops; newsagencies and bookshops; ▪ video shops; ▪ art and craft shops; ▪ souvenir and duty free shops; ▪ shops at sports 	6.00am to 11:30pm, every day of the year.	Not applicable	There are a myriad of restrictions some examples include: Domestic development shops, such as hardware stores are an example of a Special Retail Shop and have restrictions on what they can sell under this classification. For example, they can sell: <ul style="list-style-type: none"> ▪ household fixtures and fittings excluding free standing furniture other than shelving units, carpets and electrical items other than ceiling fans; ▪ household cleaning products excluding powered equipment. ▪ Extension cords and electrical fittings excluding decorative light fittings. 	If you want to trade as a special retail shop you must apply for a certificate

venues; <ul style="list-style-type: none"> ▪ boating shops; ▪ motor vehicle spare parts shops; ▪ shops at international standard hotels. 			<ul style="list-style-type: none"> ▪ Kitchenware excluding electrical items ▪ Personal safety equipment excluding clothing except overalls. <p>Newsagencies and book shops are also restricted under this classification, they can sell educational toys, but not mains operated computer games and equipment.</p>	
Filling stations	Fully deregulated trading hours.	Not applicable	<p>There are restrictions on the range of non-petroleum goods which may be sold from filling stations after general retail shop trading hours.</p> <p>Filling stations can sell a range of products including:</p> <ul style="list-style-type: none"> ▪ Food, but not canned fruit and vegetables, canned meat, canned seafood and fresh meat other than prepacked quantities not exceeding 500g weight. ▪ Garden and landscaping products, but not furniture and powered equipment. ▪ Household cleaning products, excluding powered equipment. 	
Motor vehicle shops – car yards	<p>8.00am - 6.00pm, Monday, Tuesday, Thursday and Friday.</p> <p>8.00am - 9.00pm, Wednesday.</p> <p>8.00am - 1.00pm, Saturday CLOSED, Sunday CLOSED, Public Holidays.</p>			

Appendix Two: Electricity market reviews and their recommendations

Previously Proposed Electricity Cost Reducing Policies	ERTF	Oates Review	SEI Directions	SEI Final	PC Report	Select Committee	Draft White Paper	White Paper	ERA WEM Report to the Minister 2012	ERA WEM Report to the Minister 2011	ERA WEM Report to the Minister 2010	CCI Electricity Paper
Cost reflective retail tariffs	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Cost reflective network tariffs	✓		✓			✓					✓	✓
Directly pass-through, and reflect on retail bills of: <ul style="list-style-type: none"> network tariffs; and costs of environmental protection measures 	✓		✓								✓	✓
											✓	✓
											✓	✓
Independent regulator should set retail tariffs	✓		✓	✓			✓	✓			✓	✓
Implement time-of-use tariffs	✓	✓	✓		✓	✓	✓	✓			✓	✓
Implement critical peak pricing					✓		✓	✓			✓	✓
Implement smart meters	?	✓	✓		✓	✓	✓	✓			✓	✓
Phase out retail tariff regulation over time (FRC)			✓	✓	✓		✓	✓			✓	✓
Review reliability standards		✓	✓		✓						✓	✓
Facilitate market evolution to be more transparent, effective, and efficient			✓	✓		✓					✓	✓
Align regulatory arrangements with the eastern States			✓	✓			✓	✓			✓	✓
Implement electricity FRC	?		✓	✓	✓						✓	✓
Converge gas and electricity, wholesale and retail market arrangements			✓	✓							✓	✓

Directly fund social equity and regional development initiatives (i.e. TEF) via CSOs, and ensure they are well targeted	✓		✓	✓	✓		✓				✓	✓
Constrained access model for Western Power			✓	✓							✓	✓
Investigate edge-of-grid solutions where network expansion is not cost-effective			✓								✓	✓
Identify the State's long-term network infrastructure needs (planning size, location, cost)			✓								✓	✓
Consumer education campaign			✓			✓	✓	✓			✓	✓
Broaden electricity reliability standards			✓		✓						✓	✓
Develop the demand response market			✓		✓	✓	✓	✓		✓	✓	✓
Develop direct load control capability			✓		✓	✓	✓	✓			✓	✓
Review the WEM (capacity market, gross vs. net pool, extend NEM to the NWIS)			✓						✓	✓	✓	✓
Consider integration of the WEM and the NEM			✓								✓	✓
Review Government role in electricity markets (privatise)			✓		✓		✓	✓		✓	✓	✓

Review network regulatory arrangements (allowed ROR, ex poste capex review, etc.)					✓	✓					✓	✓
Establish a consumer advocacy body						✓					✓	✓
Review of contractual arrangements and transparency between Verve and Synergy						✓			✓	✓	✓	✓
Efficiency objective for the WEM											✓	✓