



## Media Statement

11 April 2014

### Draft Microeconomic Reform Recommendations Released

#### *Report targets infrastructure, regulatory reform and competition barriers*

The Western Australian Economic Regulation Authority (ERA) today (11 April) released a wide ranging series of Microeconomic Reform draft recommendations.

The 356 page report, which will be open for public comment until 9 May, makes 31 recommendations aimed at reducing overall costs in the State's economy, cutting the cost of goods and services and removing barriers to competition.

Releasing the report, ERA Chairman, Lyndon Rowe said the Inquiry had been undertaken to identify microeconomic reform measures that would have the largest potential benefits to society and would be relatively easy to implement by the State Government.

"It is increasingly apparent that we cannot rely upon continuing strong economic growth from our natural wealth to raise our living standards," said Mr Rowe.

"Therefore, productivity growth will have to come from reforms that address hidden waste in our economy and remove unnecessary burdens on business and consumers."

The Inquiry into Microeconomic Reform is a comprehensive investigation into improving the State's economic efficiency and performance and was requested by the State Government in August last year.

The draft recommendations cover three key areas, namely government infrastructure, addressing disincentives (caused by unnecessary regulation or inefficient taxes), and removing barriers to competition.

#### **Infrastructure**

The report examines how the State can maximise the productivity of this important enabler of growth through better decision making; potentially divesting some public assets to the private sector; and providing incentives to use infrastructure efficiently through user charges such as time of use electricity charges and traffic congestion charging for vehicles entering the CBD during peak periods.

Included in the recommendations is the replacement or modification of the Royalties for Regions program, and subjecting election commitments to rigorous project evaluation processes before being included in the State Budget.

## **Addressing Disincentives**

The report proposes improved co-operation between different government agencies, better use of technology to improve service delivery, and pinpointing the recurring problems faced by users of government services.

Measures to combat future regulatory burden include a strengthening of the current regulatory impact assessment process to include a reduction in the ability of governments to grant exemptions and improvements in public disclosure of the assessments of new regulations.

State taxes have also come under the microscope with emphasis on payroll tax, residential transfer duty and land tax. One of the options recommended is to remove residential transfer duty (which affects decisions to downsize or relocate) and replace the revenue through a broader based payroll tax with a lower rate and broadening the land tax base with slightly higher rates.

Mr Rowe said the ERA's preliminary investigation indicated that tax reform has the potential to deliver \$580 million to the State's economy, while ensuring the government had access to a stable and growing source of revenue.

"We also note that reforming state taxes will do little to address the imbalance in revenue raising capacities and expenditure obligations between the State and Federal Governments and believe that reform in these areas can only be achieved through co-operation between Federal and State and Territory Governments."

## **Barriers to Competition**

The ERA has also called for an end to some regulations that it says are limiting opportunities for new businesses to create employment growth and results in some groups subsidising the incomes of others.

As foreshadowed in its earlier discussion paper, the ERA has called for:

- lifting of restrictions on retail trading hours
- removal of restrictions in the taxi industry
- deregulation of potato growing and marketing
- ending the domestic gas reservation policy, which reserves up to 15 per cent of gas production for domestic use.

The ERA is also proposing the abolition of the Government-backed Keystart loans. Currently, the program has more than 16,000 loans valued at almost \$3.5 billion. The ERA believes that Keystart presents an unreasonable level of risk to Government finances and has a negative impact on other buyers in the low-end housing market.

Compensation as a consequence of economic reforms is also dealt with in the report, with the ERA considering that there should not be any general rule on compensation and that groups or individuals need to explain why they deserve compensation on a case-by-case basis.

Mr Rowe said "With reforms like the ones recommended in this report, there are many winners and, while their individual gains are small, their number means a significant economy-wide benefit. In contrast, there are often only relatively few losers and their losses may be individually significant, but they are the ones who have benefitted from a degree of protection by existing restrictions on competition," he said.

“Ultimately, the decision on which reforms progress will be up to the State Government, which commissioned the Inquiry mid-way through last year,” said Mr Rowe.

The draft report will be open to public comment until Friday 9 May. The ERA’s final report will be presented to the Treasurer by 30 June 2014. The Treasurer will then have 28 days to table the final report in Parliament.

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**About the Consultation Process**

The public consultation process was conducted in four stages. Stage one involved an open invitation for individuals and organisations to nominate those matters which they believed required reforming. A shortlist of reform issues was then drawn up based on a matrix of implementation and potential benefits, after which individuals and organisations were invited to comment on nominated reforms. A discussion paper was then released with another opportunity for public comment. The draft report released today represents the assessment of responses to the nominated reforms. After considering submissions on this draft report, the ERA will deliver its final report to the WA Treasurer by 30 June this year.

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**Note to Editors:**

The Draft Report on Microeconomic Reform can be downloaded at: [www.erawa.com.au](http://www.erawa.com.au)