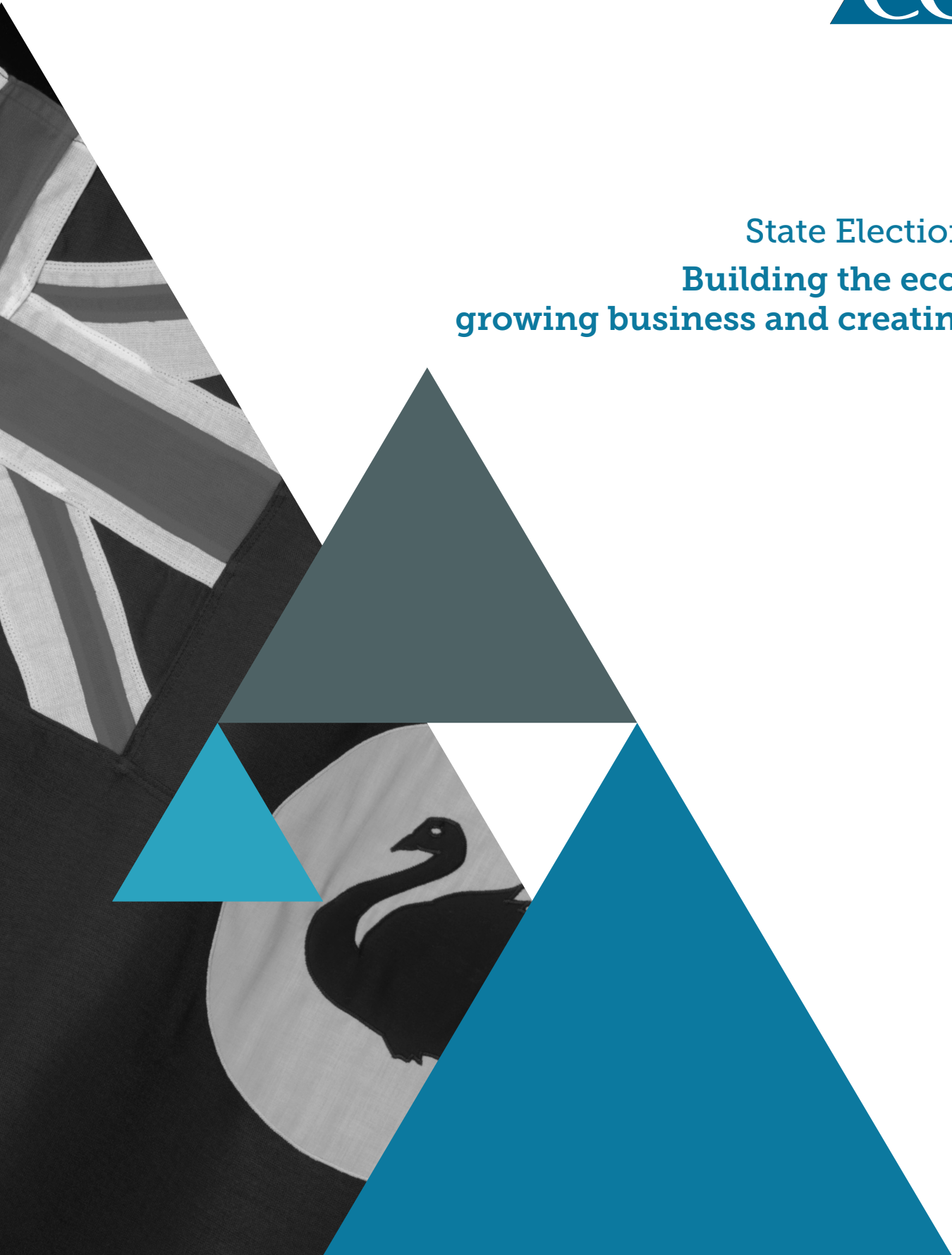




**State Election 2013:
Building the economy,
growing business and creating jobs.**



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Economic and fiscal context

The 2013 Western Australian State election comes at a challenging time.

Official figures show that the Western Australian economy remains strong, with the State now entering its 22nd year of uninterrupted growth. The WA economy grew by a record 6.7 per cent in 2011-12, outpacing the rest of Australia. As a result, WA now accounts for more than 16 per cent of the national economy, well above its population share. The labour market is also strong, with Western Australian business creating almost all of the nation's jobs in the past 12 months.

Despite these strong headline figures, there are substantial challenges for many Western Australian businesses. Many small businesses and those outside the resources sector are finding conditions difficult due to low consumer and business confidence and rising costs. The December quarter *Commonwealth Bank – CCI Survey of Business Expectations* found that the majority of Western Australian businesses remain pessimistic about their short term prospects, and have done for over two years.

In addition, concerns have intensified recently about the state of the global economy following news that China's economy was slowing more than anticipated. This proved to be the catalyst for the deferral of a number of major resource projects across the country, with these decisions highlighting the degree of uncertainty in WA's resource dominant economy. While these concerns have reduced to some extent recently, significant uncertainty remains.

The soft global outlook has also placed significant strain on the State's financial position. The 2012 Mid Year Financial Review saw a serious downgrade to the State's fiscal prospects for the coming four year period, on the back of a near \$2 billion dollar hit to forecast royalty revenue. The State Budget is now forecast to fall into deficit (in 2013-14) for the first time since 1999-00. The magnitude of forecast surpluses into the outyears were also trimmed, with a cumulative surplus from this financial year to 2015-16 now just \$2.1 billion; from \$2.8 billion – with \$1.7 billion of this new figure coming in the final outyear alone. However, with the recent pick-up in the iron ore price, these forecasts are likely to change.

While there are significant short term challenges, WA's future remains bright. The State is well placed to take advantage of the strong growth in the developing Asian nations and is expected to grow by 6.5 per cent in 2012-13 and in 2013-14 according to our latest estimates. Beyond this, the \$281 billion worth of projects either under construction or in the pipeline will ensure the economy remains strong for many years to come.

These conditions mean that the next State Government faces a tough balancing act. On the one hand, it must deal with the short term challenges of weak trading conditions and high costs. However, it also needs to keep an eye to the long term, by embarking on reforms that build the capability and capacity of the economy to ensure we can make the most of the opportunities which lie ahead.

CCI's 2013 election blueprint sets out the policy priorities for the Government of Western Australia which can be delivered in the next term. The document puts forward recommendations across two broad themes: to reduce the cost of doing business today and to plan for Western Australia's future. Following are CCI's highest, immediate priorities for the next Government of Western Australia, with the individual sections of this paper providing a more extensive range of policies in specific areas.



Key priorities for the next Government of Western Australia

Reducing the cost of doing business today

To minimise business costs we must take action to cut red tape, provide meaningful tax relief, address labour shortages and reform industrial relations. In particular, the next State Government should:

- ▶ Make a single Minister, preferably the Premier, responsible and accountable for red tape reduction. The Minister, with advice from an independent advisory panel, should be given responsibility to oversee red tape reduction targets across Government and implement all the findings of the 2010 Red Tape Reduction Group.
- ▶ Phase out remaining restrictions on retail trade including arbitrary and inconsistent rules on what products can be sold where and when.
- ▶ Immediately increase the payroll tax threshold to \$1.5 million.
- ▶ Expand existing payroll tax incentives which encourage employment of people with a disability and Aboriginal peoples, to include other under-represented groups in the workforce.
- ▶ Refer the State's remaining industrial relations powers to the Federal Government, to create one set of employment laws for Western Australian business.

Planning for Western Australia's future

To make the most of the opportunities that lie ahead, Western Australia needs a plan to build the capacity of the economy and ensure resources are being used effectively. In particular, the next State Government should:

- ▶ Set out a strategic vision for Western Australia to guide the State's development beyond the budget and electoral cycles.
- ▶ Establish clear Ministerial responsibility for infrastructure planning, with advice from a reformed and truly independent Infrastructure Coordinating Committee, to ensure critical public infrastructure is identified and prioritised in a transparent and accountable way.
- ▶ Appoint an independent regulator to determine electricity and gas tariff increases and achieve cost reflective tariffs within the term of the next State Government.
- ▶ Continue the Independent Public Schools (IPS) Program and set a target to have 50 per cent of all State schools effectively participating in the program by 2018.
- ▶ Commission an independent review of all State Government spending programs.
- ▶ Expand engagement with the business, community and not-for-profit sectors in public service delivery including in the education, public housing and community services sectors.





Part I: Reducing the cost of doing business in Western Australia today

The strong growth of the Western Australian economy in recent years has meant the State has become an increasingly high cost place to do business and to live, have a family and visit.

With the economy expanding rapidly, operating capacity has become stretched and many businesses have been forced to compete for limited resources. These capacity constraints have driven operating costs up for many businesses.

In particular, labour costs have become a major concern. This was reflected in the December 2012 *Commonwealth Bank – CCI Survey of Business Expectations*, which found that for the third consecutive year wage costs were the top priority for businesses in the year ahead. Some 43 per cent of respondents of the survey reported an increase in their wage bill over the previous 12 months, compared to just six per cent which reported a decline. Input costs such as materials and supplies had also increased over the past year for more than half of all respondents.

The rising cost of doing business has become even more challenging in recent times given that trading conditions still remain weak outside of the resources sector. Nearly a third of respondents to the December 2012 *Commonwealth Bank – CCI Survey of Business Expectations* found current trading conditions to be poor. This has been a consistent feature of the non-resources economy since the Global Financial Crisis, particularly for small businesses.

With increasing uncertainty about the state of the global economy, high costs are affecting our competitiveness right across the economy. Even businesses in the resources sector are feeling the impacts of the high cost of doing business in the State. Iron ore projects in Western Australia are estimated to be 30 per cent more expensive than the global average¹. For example, in the recent “In the Zone” conference, Ian Bauert, Rio Tinto’s managing director for China noted that five years ago Australia was considered the cheapest place for Rio Tinto to do business, but now it is the most expensive². Similarly, several other major businesses, including BHP Billiton, Chevron and Woodside, have noted the high cost of doing business in Western Australia. This environment has had an adverse impact on the viability of major projects, with many being deferred as commodity prices weakened and the economic outlook became more uncertain.

In this context, the next State Government must act to minimise business costs. While the State Government has limited influence on the external environment, many costs can be controlled or reduced through policy measures to reduce constraints and boost productivity. Reducing these costs is an important way to ensure our economy remains competitive and will help business, particularly small business, deal with challenging economic circumstances.



Priorities for the next Government of Western Australia

- ▶ Single Minister accountable for regulatory reform.
- ▶ Independent regulatory reform advisory committee.
- ▶ Red tape reduction targets for key agencies.
- ▶ Fully implement the findings of the Red Tape Reduction Group.

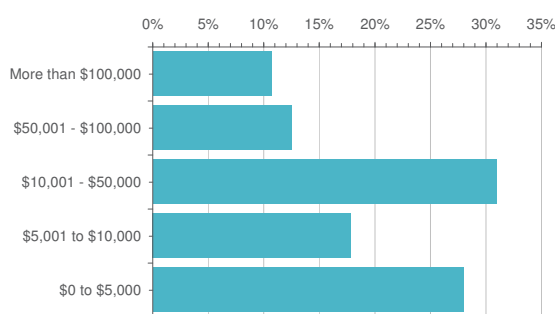
Cutting the regulatory burden

Well designed regulation can help governments achieve their economic, social and environmental goals, but excessive regulation can be a burden to businesses and the community. While regulation does have a place in Government's toolkit, too often it is overly burdensome, poorly targeted and in many cases unnecessary.

There are around 63,500 pages of regulation in Western Australia³. As well as the sheer volume of regulation, the cost of compliance with many regulations is a serious concern. Over 50 per cent of Western Australian businesses surveyed in the 2012 *ACCI National Red Tape Survey* reported spending over \$10,000 to comply with Government regulations each year (Chart 1).

Acting to reduce, remove or streamline regulatory burdens can have a significant positive impact for business, economic growth and the community at large.

Chart 1: Estimated Compliance Costs
Percentage of Respondents, By Bracket



Source: ACCI Red Tape Survey 2012

A structured approach to regulatory reform

The next State Government needs to act now to reduce the cost of regulation and compliance on business and the community. A more structured approach to formulating and implementing new regulation and evaluating existing regulation is needed. This would help ensure that both existing and new regulations are well targeted, proportionate and minimise the cost for business and the community, while helping Government achieve its goals.

In support of this activity, **a single Minister, preferably the Premier, should be responsible and accountable for red tape reduction.** This Minister, with advice from an independent advisory panel, would coordinate regulatory reform in the State and ensure the government's regulatory reform agenda is transparent and accountable to the State Parliament. It would also be responsible for implementing the findings of the 2010 Red Tape Reduction Group report, including to:

- ▶ monitor and reduce unnecessary regulatory burdens on businesses, such as duplication between agencies;
- ▶ monitor the implementation of new regulation to ensure that its benefits outweigh the costs and it is as simple as possible;
- ▶ impose regulation reduction targets on key agencies and oversee agency plans to reduce red tape, with agency heads accountable for results; and
- ▶ oversee mandatory reviews of all new Acts and regulations.

Such a Minister would provide business and the community with the confidence that red tape is being managed centrally within Government.

Further addressing the recommendations in the Economic Audit Committee report will also help to reduce red tape within Government and for businesses dealing with Government agencies (see public sector reform).

The Government should also consider innovative mechanisms to reduce the costs of regulation and maintain compliance costs at a more sustainable level. Setting aside a regulatory repeal day is a positive step towards reducing unnecessary regulation that should be maintained. Mechanisms being trialled in other jurisdictions, such as a one-in one-out system of regulation, should also be considered.

The next State Government also has a role to play in working through the Council of Australian Governments (COAG) to reduce red tape through the Seamless National Economy agenda.

The agenda covers a variety of reforms, including business reporting to governments, food regulation and a national trade licensing scheme. The next State Government, should **progress reforms committed to as part of the Seamless National Economy Agenda.** However, in implementing nationally harmonised legislation it is important that any changes result in clear benefits for Western Australia.

The next State Government should also **set out a timeframe for implementing reforms agreed to at the COAG Business Advisory Forum** and adhere to it. In this context, priorities for the Western Australian Government should include streamlining environmental assessments and approvals, improving the efficiency of major project approvals and removing unnecessary carbon reduction and energy efficiency initiatives.

There are also a range of other areas where the Commonwealth is seeking to harmonise approaches across the States to streamline regulation and reduce duplication. The harmonisation of workplace safety and health laws and the Australian Charities and Not-for-profits Commission are two prominent examples. Where Commonwealth legislation duplicates that in the state, every effort should be made to remove the duplication.

Priorities for the next Government of Western Australia

- ▶ Phase out remaining restrictions on retail trade.
- ▶ Changes to workplace safety and health laws must benefit Western Australia.
- ▶ Implement the findings of the Metropolitan Local Government Review.
- ▶ Create a single decision making authority for major project approvals.

Regulation reform priorities

Retail trade

The introduction of Sunday trading in the Perth metropolitan area was a major positive step for business and consumers in Western Australia. However, restrictions still remain on the retail sector that limit the choice and flexibility available to consumers and retailers.

Rules for what products can be sold where and when, and caps on the number of staff businesses can hire remain in place.

The current legislative environment allows businesses to be classified as a Special Retail Shop, which means they can open between 6am and 11.30pm seven days a week but have restrictions on the types of products they can sell. For example, a business classified as a Special Retail Shop can sell building products before 11am on a Sunday but not whitegoods. In contrast, a General Retail Shop has no exclusions as to what it can sell, but can only trade 8am to 9pm Monday to Friday, 8am to 5pm Saturday and 11am to 5pm Sunday.

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:

- ▶ 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;
- ▶ kitchenware excluding electrical items; and
- ▶ personal safety equipment excluding clothing except overalls.

Newsagencies and book shops are also restricted under this classification, for example they can sell educational toys, but not mains operated computer games and equipment.

Filling stations can sell a range of products including:

- ▶ 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; and
- ▶ household cleaning products, excluding powered equipment.

In other cases opening an additional store can force the business to reduce its opening hours at existing stores.

These arbitrary distinctions discourage investment and business growth and are at odds with the entrepreneurial culture we should be encouraging.

To achieve the full benefits of deregulation, the **remaining restrictions on retail trade need to be phased out now. Removing restrictions on the products that can be sold is the first step.** This would give consumers and retailers more flexibility to shop, invest and help grow the Western Australian economy.

Harmonising workplace safety and health laws

The COAG Seamless National Economy agenda has recognised that harmonisation of occupational safety and health legislation could have significant benefits for business. Western Australian businesses that operate across States are likely to benefit from consistency, however others operating only in Western Australia will not see the same level of benefit.

With over 400 pages of regulations, the current workplace safety and health burden in Western Australia is large. However, the new harmonised regulations are over 690 pages long, creating more rules for businesses to interpret and potentially increasing costs. In implementing nationally harmonised legislation CCI urges the next State Government to **ensure that all changes to workplace safety and health legislation result in clear benefits for Western Australia**. Amendments to the model legislation should be made to suit local conditions and practices where necessary, including:

- ▶ removing the reverse onus of proof in respect to discriminatory, coercive or misleading behaviours;
- ▶ removing the burden on a Health and Safety Representative (HSR) to direct a 'cease work';
- ▶ removing the Work Health and Safety Entry Permit System (WHS-EPS) provision for union right of entry; and
- ▶ reducing the maximum penalty that can be applied to a Body Corporate in the event of a Category 1 breach of duty of care currently set at \$3 million to a proposed \$1.5 million.

Local Government

More needs to be done to help business navigate through different Local Government rules and regulations.

The next State Government should **implement the findings of the Metropolitan Local Government Review** to improve the sector's efficiency and deliver improved and more consistent services to business and residents.

In addition to amalgamations of local councils, other key recommendations of the Review that should be implemented in the next term of Government include:

- ▶ encouraging greater consistency amongst Local Government building and approval processes for business, to reduce compliance costs, particularly in the areas of planning and approvals; and
- ▶ moving oversight responsibility for Perth airports, universities and major hospitals from Local Government to the Metropolitan Redevelopment Authority.

The next State Government should also **commit to a conduct similar review process for regional Local Governments** within the next term of Government.

The next State Government should also develop a web platform where all Local Government compliance and licensing/permit procedures and costs are published to enable comparison of the cost of doing business in different Local Government areas. This would provide an incentive to Local Governments to adopt a best practice approach to regulation.



Project approvals

Project approvals represent a significant cost for business in Western Australia. Some businesses report that they require as many as hundreds of 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. This burden can be significantly reduced by fully implementing the recommendations of the 2009 Industry Working Group Review of Approvals Processes. At the same time, no State Government agency has formal responsibility for considering the potential social and economic benefits of projects to the State economy, jobs and communities.

To address these issues and reduce the cost for business, the next State Government **should establish a single decision making authority for major project approvals.**

At a minimum, **an individual Minister (e.g. State Development) should be given overarching responsibility for all major project approvals.** This role would take into account the economic benefits of the project, as well as the social and environmental impacts and coordinate approvals through other agencies. This would significantly reduce duplication and transaction costs and would make Western Australia a more competitive place to invest.

The next State Government should not consider cost recovery arrangements until these reforms, which have been called for in a number of reviews, have been fully implemented. Environmental approvals already represent a significant cost for business and, without the significant reforms outlined above, business is unlikely to see benefits from cost recovery arrangements.

Furthermore, following slow progress through COAG, the next State Government should redouble its efforts to conclude a bilateral agreement with the Federal Government enabling environmental and major project approvals under Federal and State legislation to be conducted in a single process. In the absence of meaningful progress and as called for at the recent COAG Business Advisory Forum, the Productivity Commission should complete and publish a study benchmarking Australian environmental approvals at Federal and State levels against those in other markets.



Genuine tax reform

Maintaining a competitive and efficient tax regime in Western Australia is essential to reduce the cost burden on business and ensure the State can continue to attract investment.

No significant changes have been made to the State's tax system since 2005 when the payroll tax rate was reduced to 5.5 per cent. As a result, the tax burden in WA has been increasing relative to other jurisdictions (Chart 2). The next State Government must act to reduce the tax burden, particularly for small business, and make the system more efficient.

Payroll tax

Payroll tax is consistently identified as a major burden on business. In the 2012 ACCI National Red Tape Survey, 48 per cent of businesses in Western Australia indicated they would hire more workers if the payroll tax burden was reduced.

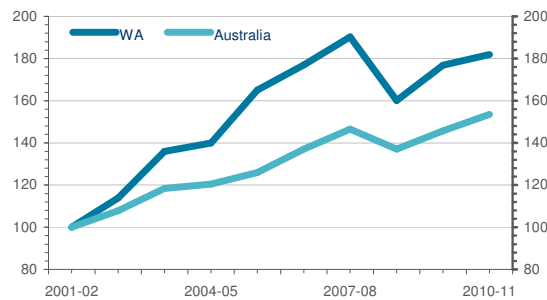
Given strong wages growth in recent years, payroll tax is a particular concern for small business.

The current exemption threshold, \$750,000, has been in place for close to a decade, despite average weekly earnings rising by 80 per cent over this time. As a result, businesses employing just 12 staff on average wages are now liable, compared with 23 staff in 1997-98 (Chart 3).

To address this, **the threshold should be increased to \$1.5 million**, a level which would ensure genuine small businesses⁴ are exempt from payroll tax. The threshold should also be indexed to ensure genuine small businesses never pay this tax.

Chart 2: Taxation per Capita

WA vs National Average, Index; 2001-02 = 100



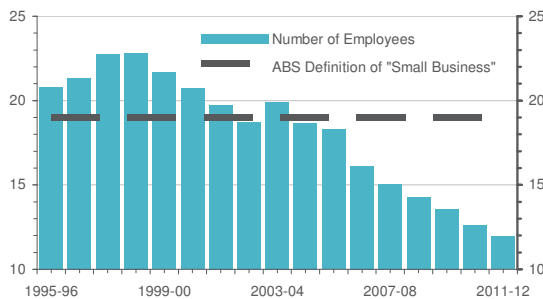
Source: ABS Cat. 5506.0

Priorities for the next Government of Western Australia

- ▶ Increase the payroll tax threshold to \$1.5 million.
- ▶ Reduce the payroll tax rate by 0.5 per cent.
- ▶ Indexation for the taxation regime.

Chart 3: Payroll Liability Threshold

Number of Employees Before Liable, AWE Basis



Source: ABS Cat. 6302.0, WA OSR, CCI

Increasing the threshold to exempt small businesses should be affordable, even in the current fiscal environment. The 2012-13 payroll tax rebate scheme⁵, which impacts on an estimated half of all payroll tax liable businesses in Western Australia, cost \$128 million, which was just 3.7 per cent of total forecast payroll tax revenue in 2012-13.

Meanwhile, the rate of tax, 5.5 per cent, remains the highest of the mainland states. In an environment where cost pressures are having a significant impact on the competitiveness of WA businesses, there is a compelling case for the **payroll tax rate to be cut by 0.5 per cent over the course of the next term of government**. This would bring Western Australia's payroll tax closer to the average of mainland states, which is currently 4.9 per cent.

Indexation

One element of good tax policy missing from Western Australia's tax regime is appropriate indexation of the various rates and thresholds, to prevent bracket creep. A system of indexation ensures the overall tax burden does not increase excessively faster than economic growth and also imposes fiscal discipline on Government to control expenditure. Implementing a system of indexation is achievable and should be a key tax priority for the next State Government.

Payroll tax is just one example, where the exemption threshold has not changed in close to a decade. In the case of transfer duties, the scales were last adjusted in 2003, which has resulted in significant bracket creep to the point where a median valued property is subject to the top rate of taxation. In 2003, a median property was subject to a tax rate in the middle of the scale⁶. These scales should be adjusted to reflect market conditions, with a view to increasing the scales across the board and indexing them to an appropriate measure, such as the median house price.

WA's land tax regime is also in need of an update, with the scales unchanged since 2004 despite the significant increase in land values across the State over this time. The next State Government should update the land tax scales to reflect market conditions and introduce an appropriate indexation system, linked to the median price per hectare of commercial land in Western Australia. Over the long-term, the State Government should introduce measures to simplify the tax, including a single rate and threshold system and an incorporation of the Metropolitan Regional Improvement Tax (MRIT) into the regular land tax base.



Addressing labour shortages

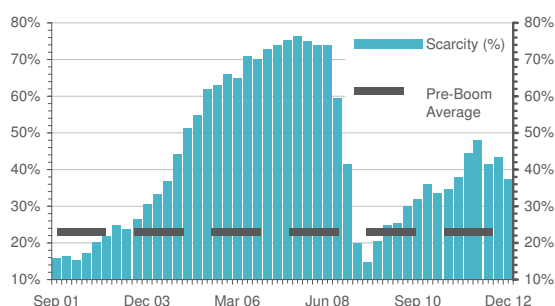
A flexible and responsive labour market is vital for Western Australian businesses to take advantage of opportunities in the future. After a decade of strong growth and predictions that these trends will continue for some time, labour shortages are expected to be a long standing feature of the WA economic landscape.

Despite record rates of population growth, CCI estimates that Western Australia will fall short of its labour requirements by 180,000 by 2020.

These shortages create significant costs for business. Competition for scarce labour has led to broad wage and price pressures and increased staff turnover, which has impacted on the profitability, viability and ability to expand operations of small business. Improving participation rates and attracting more workers to WA will go some way to easing these pressures. Levels of labour scarcity in WA are around double their pre-GFC average (Chart 4).

Chart 4: Labour Scarcity

Business Reporting Labour is Scarce vs Pre-Boom Average



Source: CBA-CCI Survey of Business Expectations

Priorities for the next Government of Western Australia

- ▶ Expand payroll tax incentives for under-represented groups in the workforce.

- ▶ Partner with industry to increase workforce participation.

- ▶ Work with the Federal Government to:
 - increase the value of the zone rebate

 - offer concessions to attract workers to regional WA; and

 - establish a pilot Regional Migration Agreement in WA.

Workforce participation

Increasing the number of people participating in the labour force is a critical part of addressing labour shortages in WA. If WA was able to improve its participation rate to 75 per cent (the OECD average), an additional 112,000 workers would be included in our workforce, 62 per cent of the projected shortfall.⁷

There are many barriers that prevent people from engaging in the workforce. These include lack of available quality care (including child care) services; employers not choosing to employ people from diversity groups; lack of flexible employment arrangements; and mismatching of skills available to industry demand or what employers require.

The State Government can **provide support to employers and potential labour force entrants to overcome some of these barriers.**

Payroll tax incentives

In the 2012-13 State Budget payroll tax incentives were included that are designed to encourage employers to employ new workers with disabilities and new Aboriginal employees, both under-represented groups in the workforce. These two initiatives will cost the State Budget only \$20 million and \$4 million respectively over forward estimates.

The next State Government should **expand these tax incentives to a wider range of under-represented groups**, including mature age workers and youth with limited or no experience, to further improve participation rates.

Information dissemination and promotion of services

Given the benefits of increasing workforce participation rates in the economy, the State Government has a role in educating and informing employers on how to improve workforce planning, workplace flexibility and ways to best engage with people under-represented in the workforce. Existing services do not seem to be reaching a broad audience of employers.

The next State Government should **explore options to partner with community and industry associations to deliver workforce information to employers and encourage greater workforce participation** and should investigate new channels including social media.



Child care services

Improving access to places and the affordability and quality of child care services will increase the capacity of parents and carers to return to the workforce. It will be important that the State work with the other tiers of Government to implement the new National Quality Framework. This strategy aims to raise quality in education and care services across Australia.

The next State Government will need to successfully implement the framework in WA and meet new requirements of having qualified teachers on site at all licensed child care providers. This includes ensuring that there are adequate training places and adequate numbers of early childhood teachers.

According to the Department for Communities, the number of children accessing child care is growing. The National Quality Framework will phase in educator-to-child ratio requirements, starting in 2014. It will be important to maintain and increase the number of child care places available to meet demand while meeting these new arrangements. Encouraging collaborative private-public partnerships may be a solution to ensure the delivery of and investment in quality child care facilities and resources.

Labour mobility

Substantial scope exists to encourage greater labour mobility within and to Western Australia. Enticing people to move to where the jobs are is a complex policy issue. Regional WA competes with Perth for skilled labour and a number of regions are experiencing similar low unemployment rates to the Perth metropolitan area. Additional barriers including a lack of affordable housing, higher living costs and a lack of services impacts on the capacity of regions to attract skilled labour.

Attracting people from other states to WA is a particular problem. Interstate migration still remains the smallest component of overall population growth in WA, accounting for just eight per cent of the total population growth for the period 2002 to 2012.

The next State Government needs to work with the Federal Government to **increase the value of the zone rebate to encourage greater labour mobility between regions and states.** The current zone rebate is a decades old scheme that offers participants an income tax offset for living and working in a particular area of Australia.

When introduced, the zone rebate equalled around 4.6 weeks annual earnings, but it has not been indexed and now equals just 0.27 weeks, minimising its effectiveness as an incentive to entice people to relocate. Working with the Federal Government, the next State Government should seek a re-examination of this incentive to ensure that it is representative of average wages and could provide greater stimulus for people to move for work.

Attracting a skilled workforce

International migration to Western Australia is considerable. In 2012, WA utilised 24 per cent of the nation's primary subclass 457 visas. This is well above our proportionate share compared to population. Over the past 10 years overseas migration has risen by an average of 15.2 per cent, accounting for 60 per cent of total population growth in 2012.

Given our reliance on migration and the important role it plays in meeting our workforce needs, the next State Government needs to **continue to work with the Federal Government to ensure the national migration program is meeting WA's labour and skill requirements.**

Regional migration needs

Finding suitably qualified workers to be employed by regional businesses is a particular challenge. Not only are there fewer people available to work, it is difficult to attract people to the regions to take up positions as living costs increase. In particular, housing prices are a key barrier to attracting people to live and work in regions. Many companies have to subsidise or pay the full cost of housing for staff in regional areas, as rent and buying prices are unaffordable.

The inability of employers to attract migrant workers to regional and rural Western Australia is concerning. Currently there are no concessions available to attract skilled migrants to work in regional and rural WA. In the past, the Regional Sponsored Migration Scheme offered English language concessions to make it easier for workers to meet minimum language requirements, if they were willing to move to regional areas. This has now been removed. The State Government **needs to work closely with the Federal Government to offer solutions to employers in regional areas to attract skilled workers to regional WA.**

The Regional Migration Agreement (RMA) program, announced in 2011, has been designed to provide regional areas with an additional option to meet the overall shortfall of workers, not just skilled workers. The RMA program is intended to collectively allow employers in a region to sponsor overseas workers in semi-skilled occupations, such as those requiring a TAFE Certificate II or equivalent, as well as in skilled occupations.

Unfortunately, the RMA program has yet to be rolled out across Australia. No official guidelines on how to access the program have been released and to date no pilot agreements have been established and implemented.

The State Government needs to encourage the Department of Immigration and Citizenship to finalise and release the RMA guidelines. Efforts should also be made to develop an RMA pilot in regional WA. It is understood that for a region to qualify to set up an RMA it must have a population of fewer than 150,000 people. WA would be an ideal destination to undertake a pilot given that regions such as the Pilbara, Mid-West and Kimberley are experiencing labour and skill shortages and have populations well under the 150,000 person threshold.

Reforming industrial relations

Industrial relations (IR) is a key issue for business in Western Australia and compliance with legislation is a significant cost burden. In the 2012 *ACCI National Red Tape Survey*, more than 90 per cent of Western Australian businesses surveyed found wages and conditions of employment complex. While the Federal Government holds many powers to adjust the industrial relations environment, much more can be done by the State Government to ease this burden on business.

Referral of State powers

Western Australia is the only State to retain its own IR system. While most private sector businesses are covered by the Federal IR system, the State system covers a small percentage of mostly small business employees.

Having two IR systems causes confusion amongst employers and results in duplication of costs for Government and business. The State system is also outdated and lacks the flexibility needed by small business to effectively manage and engage their staff.

Notwithstanding CCI's concerns about the *Fair Work Act*⁸, the current Federal system would be an improvement for small business in Western Australia. The State Government should therefore **refer remaining IR powers to the Federal Government.**

In the absence of a referral of powers, reform is essential to reflect the needs of small business and ensure greater consistency with the Federal system. In particular amendments to be considered by State Parliament should:

- ▶ rationalise State awards to reflect the needs of modern small businesses;
- ▶ amend the unfair dismissal system to reflect the needs of small business and exclude employees from making a claim within their first 12 months of employment, in line with the *Fair Work Act*; and
- ▶ provide for the option of registered individual and non-union enterprise agreements to supplement the existing union enterprise agreements.

Priorities for the next Government of Western Australia

- ▶ Refer the State's industrial relations powers to the Federal Government.
- ▶ Remove the doubling up of public holidays.
- ▶ Require unions to have a legitimate reason to exercise right of entry.
- ▶ Establish a Code of Conduct for the building industry.



Public holidays

Currently businesses that operate seven days a week are required to pay public holiday penalties on two days (rather than one) when a public holiday falls on a weekend. These rules result in some businesses being obliged to recognise up to 14 public holiday days per year, instead of the 10 intended by the legislation.

This additional cost to business should be removed by **amending the *Public and Bank Holiday Act 1972* to provide for the substitution of a public holiday where it falls on a weekend**, rather than an additional day.

Right of entry

Currently, under the *Industrial Relations Act 1979* (WA), union officials have a right of immediate entry to a work site when citing safety breaches. The right can be exercised without notice, without the union having an affected member and without having to specify the suspected breach.

As a result, CCI members are experiencing an increasing frequency of visits by union officials relying on alleged safety breaches to gain entry to a site for the purpose of signing up new members. The visits cause significant disruption to business.

To reduce some of this disruption, CCI believes unions **should be required to demonstrate a legitimate reason to exercise right of entry for suspected safety breaches**. A legislative amendment should be enacted requiring a union official seeking entry to provide details about the alleged safety breach and a declaration that the union is entitled to represent the employee that the alleged breach affects.

Building industry code of conduct

There is significant concern in Western Australia about the potential impact of significantly reduced powers and penalties for unlawful behaviour in the building and construction industry after the abolition of the Australian Building and Construction Commissioner (ABCC).

Based on past history, there is a strong likelihood that unlawful behaviour will again become endemic which would result in a significant level of disruption to business caused by illegal industrial activity. Disruption causes delays to production and threatens the delivery of public infrastructure projects and also the reliability of labour supply.

In the absence of the re-establishment of the Australian Building and Construction Commission, CCI calls on the next State Government to **establish a Western Australian code of conduct for the building industry**. This would clarify what constitutes acceptable workplace practices on construction sites as a contractual condition for public infrastructure projects with a strong inspectorate established to enforce these obligations.

Part II: Planning for Western Australia's future

Looking ahead it is clear that the Western Australian economy has great potential to continue to grow and prosper.

CCI forecasts Western Australia's economy will grow by 6.5 per cent in 2012-13 and 2013-14. Beyond this, there are more than \$281 billion of major investment projects either under construction or in the pipeline for Western Australia, which will ensure growth remains strong for many years to come.

While the future for Western Australia remains bright, this will not come without its challenges. The next State Government has an important role to play to ensure we are well placed to ride these challenges out and make the most of the opportunities ahead.

To achieve this, the next State Government needs to set out **a strategic vision for Western Australia which coordinates across important areas of the State's development and looks beyond the budget and electoral cycles.** A vision will provide direction and guidance to all Government agencies and ensure they are working towards common goals. At the same time it should be flexible to enable business to respond to markets and Government to adjust to changing needs and conditions.

While there are currently plans in place for a number of key areas such as labour, energy and public transport, business still lacks a coherent strategic vision from the Government to provide long term certainty and confidence for investors. Infrastructure, land use, transport and energy are particularly important areas where Government can establish greater confidence for long term private investment. It is also important that the next State Government look to develop strategies for the implementation of these plans.

A long term approach to developing the workforce of the future is also needed, with flexible schools and expanded training programs needed to help meet the opportunities before the State.

Underpinning this long term plan must be a sound and secure budget framework with budget surpluses maintained and debt levels consistent with a AAA credit rating. Control of Government spending remains the cornerstone of good financial management and the most appropriate means of dealing with current uncertainties.

Priorities for the next Government of Western Australia

- ▶ Develop a strategic vision for Western Australia.

Priorities for the next Government of Western Australia

- ▶ Establish clear ministerial responsibility for infrastructure planning.
- ▶ Reformed and independent Infrastructure Coordinating Committee.
- ▶ Develop a State infrastructure plan.
- ▶ Explore alternative funding options for infrastructure.
- ▶ Identify options for privatisation of existing infrastructure.

Infrastructure

The strength of the Western Australian economy in recent years has placed increasing pressure on the State's economic and social infrastructure. Capacity constraints have emerged which are adding to the cost of doing business. The next State Government needs to improve infrastructure planning and coordination to avoid capacity constraints and ensure priority projects are being funded and developed in a timely manner.

Develop a long term infrastructure plan

Despite record levels of investment in public infrastructure by successive governments, there is still no overarching long term plan to prioritise and provide certainty about future infrastructure projects. Apart from the Northern Territory, Western Australia is the only jurisdiction not to have such a plan.

To help improve infrastructure planning and coordination in the State, the next State Government should **establish clear Ministerial responsibility for infrastructure planning**. This should be undertaken with advice from a **reformed and truly independent Infrastructure Coordinating Committee (ICC) to ensure critical public infrastructure is identified and prioritised in a transparent and accountable way**.

A reformed ICC's first task and ongoing role would be to **develop a State infrastructure plan** to be released to the public for comment. A plan should be based on a rigorous and transparent cost benefit analysis and should prioritise infrastructure projects to ensure Government funds are directed to those projects which will deliver the greatest benefit. It should also identify opportunities for private sector investment. At the same time, it will help business make long term investment decisions and help the State access its fair share of funding through Infrastructure Australia.

An infrastructure plan should also look at options for funding. Though the State Government continues to invest record amounts in infrastructure, sourcing funding for infrastructure projects will become increasingly difficult in the years ahead given pressures on the State budget. Therefore, the next State Government needs to consider alternative funding models that bring together Government, investors and the private sector. The next State Government **should explore alternative funding options for economic and social infrastructure in Western Australia** including private sector investment, superannuation funds, annuities and user pays charges to ensure infrastructure is delivered to meet future needs.

The Infrastructure Australia report *Australia's Public Infrastructure - Part of the Answer to Removing Infrastructure Deficit* notes that privatising Government assets should be considered to free up capacity to further invest in infrastructure without adding to net debt. It makes clear that in many cases the costs of running and maintaining these assets by governments outweigh the community benefits. The assets to be considered include airports, roads, water services, ports, freight rail, electricity generation, transmission and distribution. CCI calls on the next State Government to **identify options for privatisation of existing infrastructure to fund critical new infrastructure**.



Transport planning

Transport is a key element of any State plan. The current *Public Transport Plan for Perth 2031* only focuses on the Government's vision for improved public transportation in Perth to support the city's growing population. It looks broadly at connecting strategic centres in the longer term via light rail, rapid transit corridors, expansion of the rail network and adding more buses and trains. A revision to this plan is expected and will be important to reflect changing demographics (higher population forecasts), but there is also a need for a broader and more detailed plan to address transportation issues across Perth and the entire State.

A transportation plan should include short and long term planning over a broad range of transportation issues. These include public transportation, aviation, and port reform, developing and protecting freight and transportation corridors, taxis and reducing congestion. The plan should also include a detailed implementation strategy and timeline that prioritises key projects and provides details on how these projects will be funded, as part of a State infrastructure plan.

While a long term vision is critical, a transportation plan should also include solutions to short term transportation issues. Traffic congestion is one issue of particular concern to CCI members. The *RAC Businesswise – CCI Congestion Survey* released in August 2012 found that current road infrastructure is lagging behind business needs by about five years. The transportation plan should also focus on investing in road infrastructure.

Priorities for the next Government of Western Australia

- ▶ Develop an economy wide transportation plan.

Priorities for the next Government of Western Australia

- ▶ Establish an independent regulator for electricity and gas tariffs.
- ▶ Cost reflective tariffs.
- ▶ Continue towards full retail contestability.
- ▶ Minimise costs and encourage efficiency in energy markets.
- ▶ Pathway and timetable for a more competitive energy sector.

Secure, affordable and efficient energy

Energy is a key input to economic activity and at the same time a major cost for many businesses. Reform in Western Australia to date, undertaken by both sides of politics, has achieved some important successes. Gas infrastructure and services have been privatised and new investments in domestic gas processing are coming on line. For electricity, over \$2 billion of private funds have been invested in generation since 2006 and around 9,000 businesses have access to competitive electricity.

However the sector remains mostly uncompetitive, with extensive Government ownership and oversight, leading to conflicts of interest and inefficiencies.

The 2012 *Energy White Paper* makes a strong case for further competition in energy markets to improve business confidence and act in the long term interests of consumers. While the State Government's *Strategic Energy Initiative: Energy 2031* sets out good long term goals for a more competitive energy market, business and the community now need a clear pathway towards a competitive market. The next State Government should **set out a pathway and timetable for a more competitive energy sector, including the eventual privatisation of Government owned assets.**

Cost reflectivity

As a first step towards greater competition, **electricity and gas tariffs must become cost reflective within the term of the next State Government.** However, politics has consistently made this difficult to achieve. Therefore, the next State Government **should appoint an independent regulator to determine electricity and gas tariffs and achieve cost reflective tariffs.**

Both electricity and gas tariffs for small business and residential consumers continue to be set by the State Government (the only State in Australia where Government plays this role). Governments from both sides of politics have until recently been unwilling to pass on even small increases in the cost of energy (in 2012-13 residential tariffs increased by 3.5 per cent plus the price of carbon).

Since 2009, electricity tariffs have increased significantly; for small business they have increased by around 45 per cent⁹. This followed almost 20 years (from 1991-92 to 2009-10) during which electricity tariffs for small business did not increase at all. If spread over the past 20 years, the 45 per cent increase in electricity tariffs would have only equated to a compound rate of 1.9 per cent per annum. Compared to recent increases noted above, this would have been far more manageable for small business.

Only an independent regulator is sufficiently distant from politics to ensure price rises are smooth and manageable for residents and business consumers. While achieving cost reflectivity will mean a short term increase, it will facilitate greater private participation in energy markets and will help drive efficiency, ultimately putting downward pressure on prices.

Broader energy market reform

Alongside moves to cost reflective pricing other **incremental reforms to the energy market can help minimise costs and encourage efficiency.**

For electricity markets, CCI set out its views of the detailed reforms needed in its electricity blueprint *Secure, affordable and efficient electricity for business in Western Australia*.¹⁰ The benefits of electricity reform will only flow fully to consumers if the private sector is able to play a larger role. This will only be possible with the privatisation, and break-up of some Government owned assets. In the short-term, the focus should be on improved market governance and dealing with excess capacity. In particular, the next State Government should:

- ▶ expand the use of time of use tariffs and smart meter technology;
- ▶ support the ongoing review of the reserve capacity mechanism;
- ▶ implement its COAG commitment to rationalise carbon reduction and energy efficiency programs;
- ▶ transition to providing all support to vulnerable energy consumers through direct assistance;
- ▶ transition the Tariff Equalisation Contribution to a direct community service obligation payment to Horizon Power;
- ▶ complete analyses considering constrained approaches to electricity networks and the expansion of the North West Interconnected System; and
- ▶ develop effective arrangements for small business to receive a fair, market based feed-in tariff for renewable electricity.

Much is also needed to further develop competitive gas markets. Gas is a vital source of energy for business and securing continued investment in gas processing for export as LNG and for the domestic market is essential for the State's economic well being. But Government shouldn't focus on subsidising domestic users or restricting exports through the domestic gas reservation policy. The next State Government needs to consider how to make genuine improvements to market transparency and liquidity to ensure domestic users (business and residential) have access to gas at market rates. In particular it should:

- ▶ continue to implement the gas bulletin board and statement of opportunities;
- ▶ investigate options to improve liquidity in domestic gas markets, including short term trading; and
- ▶ support and incentivise emerging supplies of onshore gas.

Choice for consumers

Lastly, CCI has consistently argued that the eventual goal for the energy sector in Western Australia should be greater competition available to end consumers of energy. In Western Australia only 8.8 per cent of businesses are able to choose their electricity supplier while around 90,000 businesses and one million households have no choice in their electricity provider.¹¹ For the small number of medium and large businesses able to choose their supplier, retail competition has delivered lower tariffs; some CCI members report up to 20 per cent reductions compared to regulated tariffs.

Widening retail competition will see these benefits flow to many smaller users and would encourage greater efficiency across the electricity supply chain. Experience from Victoria, which has the most competitive market in Australia, shows that full price deregulation does not drive higher prices.¹²

The next State Government needs to set out a path towards greater competition and **continue towards full retail contestability for small business and residential consumers**. As an important step in this direction, the next State Government should initiate a review of retail contestability as required by the *Electricity Corporations Act*.

Education and training

The next Western Australian Government has a key role to play in the development of education and training policy to ensure the State's current and future workforce has the necessary skills, training and education to fill job vacancies.

Independent Public School Program

CCI encourages the next State Government to **continue the progression of the Independent Public Schools (IPS) agenda**. This agenda has created advantages to the school sector by giving schools greater autonomy to meet the needs of their local school community.

To join the IPS program, schools must meet a strict set of criteria to show how they will improve their capacity to assume greater responsibility for their own affairs, demonstrate appropriate levels of local support, including staff support and demonstrate potential benefits to students and the broader school community.

When this program was initiated in 2010, 50 per cent of all public schools expressed an interest in becoming an IPS. There are currently 814 public schools in Western Australia. After the next intake in 2013, 255 schools will be included in the IPS program. The State should set a target for 50 per cent of all State schools to participate in the IPS by 2018. It should also ensure half of the initial schools that expressed interest in the program are provided with support and mentoring to meet the requirements.

It will be important that the IPS program is reviewed to ensure outcomes continue to be successful overtime. The IPS program has now been in place for two years. A review should also be undertaken in the next two years as a matter of course.

Priorities for the next Government of Western Australia

- ▶ 50 per cent of all State schools in the Independent Public Schools (IPS) Program by 2018.
- ▶ Improved access to capital and land for independent schools.
- ▶ New school resource standard as recommended in the Review of Education Funding.



Independent schools' access to capital

The independent sector is the fastest growing schooling sector, with an additional 95 schools estimated to be needed in the sector in WA by 2020 and the demand for capital support is high. Investing in, and maintaining, capital infrastructure in an independent school is extremely expensive and is often met solely or largely through parental contributions. Parents contribute more than 80 per cent of the cost of buildings and equipment in the independent sector, mainly through school fees.

The next State Government should improve access to **capital and land for independently owned and governed (independent) schools to allow new schools to be built and existing schools to be appropriately maintained.**

Without the capacity of the non-government sector to leverage private capital investment, governments will not be able to meet future demands for school enrolments.

Currently, it costs the Western Australian Government four times as much to fund a student in a Government school (\$10,000) as it does an independent school (\$2,500). Consequently, more students in independent schools decreases the funding burden on the Government, allowing capacity for increased funding to be allocated to improve Government schools for students or other educational services.

Review of funding

With the recent release of the Review of School Funding and the Commonwealth Government's response, the next State Government faces a significant challenge to reform education funding in Western Australia.

The State Government needs to **deliver education funding reforms while managing its impact on the State budget.** It should work with the Federal Government, education providers (both private and public) and the local community to establish a system that is effective, efficient and transparent.

The Review of School Funding panel recommended that all recurrent funding for schooling, whether it is provided by the Federal Government or state and territory governments, be based on a new schooling resource standard.

CCI agrees that the schooling resource standard would be the most appropriate approach to set a base amount or general recurrent funding for all students in all schooling sectors, allowing for additional loadings to meet differing student needs and circumstances.

The State Government will need to work closely with the Federal Government to determine the levels of the schooling resource standard per student amounts and loadings in the lead-up to implementation from 2014. The State Government will need to undertake robust modelling to ensure the impact on the State budget is manageable.

Within this uncertain funding environment, a reformed system must:

- ▶ provide every child the universal right to a basic and effective level of literacy, language and numeracy, that meets national benchmarks, regardless of socioeconomic status;
- ▶ make allowances for additional funding for children in disadvantaged areas or from disadvantaged backgrounds to access a quality education;
- ▶ encourage continuous improvement of teacher quality and outcomes;
- ▶ enable local schools to have greater autonomy to meet the needs of the local community; and
- ▶ deliver a simplified and more transparent education system.

Apprenticeships and traineeships

The delivery of apprenticeship support services is currently being reviewed at a national level. The Federal Government is considering deferring responsibility for apprenticeship support services to state governments. If this occurs, the State Government must ensure that **apprenticeship support services remain industry driven and delivered in Western Australia.**

Quality contemporary teachers and lecturers

Attracting and retaining quality teachers is also an important issue at school, further and higher education levels. The next State Government should **deploy professional development programs aimed specifically at teachers to inform them about labour market conditions and provide up-to-date information about skill shortage areas and career opportunities for students.** This will provide effective career advice to ensure students are graduating well informed on industry skill needs.

Teacher quality has an immense impact on influencing students' achievements. It is important teachers and lecturers are provided with the opportunity to improve skills, undertake professional development and engage with industry on a continued basis. The Government needs to promote and support State-wide programs that encourage the development and recognition of skilled teachers, lecturers and trainers, including professional development programs to improve quality of teaching outcomes.

Unlocking the university sector

Unlocking universities from barriers preventing institutions from accessing finance to improve facilities, attracting investment and encouraging innovation and research, needs to be a priority.

As acknowledged by the Metropolitan Local Government Review Panel, universities often fall across a number of Local Government boundaries. This creates a less-than-optimal situation for the institutions and local governments, making decisions on land use and building regulations complex and difficult to implement.

The State Government should also **transfer oversight of universities from local government jurisdiction to an independent body so universities are not split across local government boundaries.** This would be a positive move for improving autonomy of university governance.

Further to this the State Government should work towards **modernising legislation that currently inhibits universities from having control over the land use and tenure on which they operate.** Currently the universities sector has little control over land use inhibiting the access to finance which would allow to greater ability to invest in research, innovation and commercialisation.

Priorities for the next Government of Western Australia

- ▶ Maintain prudent financial management.

- ▶ Meet self-imposed financial targets.

- ▶ Best practice governance for the Future Fund.

- ▶ Improved accountability and transparency for Royalties for Regions.

Sustainable public finances

The maintenance of Western Australia's strong public finances should be a high priority for the next State Government. The need to take action on this issue was made clear in October, when Standard and Poor's downgraded the outlook for the WA Government from 'Stable' to 'Negative', implying that the State has a one in three chance of losing its coveted AAA credit rating over the next two years.

In a time of significant global uncertainty and volatile commodity prices – which underpin around one fifth of the State budget, up from five per cent a decade ago (Chart 5) – the next State Government must take action to strengthen the State's fiscal position.

Prudent financial management

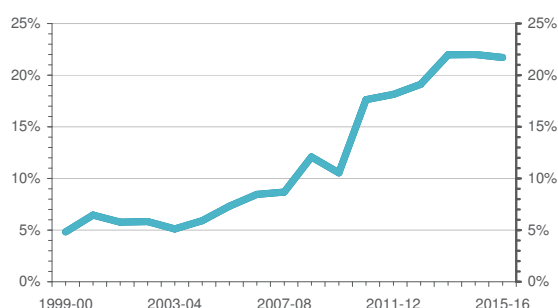
The next State Government should continue the State's strong history of prudent financial management and **ensure its self-imposed financial targets are met.** The next State Government must:

- ▶ **Achieve operating surpluses over the course of the business cycle.** Surpluses should be large enough to provide a buffer against economic shocks, but not too large as to imply taxes are too high.

- ▶ **Maintain a competitive tax regime.** Ensuring the State is not over-taxed will mean the State can continue to grow and attract investment.
- ▶ **Maintain or reduce real per capita operating expenses.** Capping spending growth at a level which accounts for population growth and inflation ensures taxes do not need to rise and recurrent spending is not financed through debt.
- ▶ **Keep ratings sensitive ratios within recognised limits.** These ratios are for net interest costs to remain below 4.5 per cent of revenue and net debt to remain below 90 per cent of revenue. These two ratios are used by ratings agencies as a 'trigger' for possible credit rating downgrades. Maintaining these goals will ensure Western Australia's coveted, and increasingly rare, AAA credit rating is maintained.

Chart 5: WA Budget & Royalty Revenue

Percentage of Revenue from Royalties



Source: WA State Budget



Transparency and governance in State Government funds

Outside day-to-day financial management, the next State Government must deal with some important governance issues in relation to two funds - the Western Australian Future Fund (WAFF) and the Royalties for Regions (R4R) program.

CCI does not believe the WAFF is the best use of taxpayer money at this stage of Western Australia's development. In the policy paper *Examining the Issues of Sovereign Wealth Funds*, CCI found that in an environment of rising debt and pressing infrastructure needs, any potential money to be diverted into a sovereign wealth fund would carry a significant opportunity cost.

CCI has serious concerns about the governance of the fund, including the ease with which funds can be accessed and the very limited range of investment classes available to the fund, which will hamper its rate of return.

The next State Government **must strengthen the governance arrangements to ensure the WAFF adopts global best practice**. This will ensure the WAFF does not harm the perception of the State as a place to invest. Best practice principles, the Santiago Principles, a set of non-binding principles developed and adopted by the world's leading sovereign wealth funds, suggest the WAFF should:

- ▶ sit as a stand-alone account on the State's balance sheet;
- ▶ have a board of trustees independent of Government to oversee the fund and its investment decisions;
- ▶ report on its performance at least once per quarter; and
- ▶ provide clear detail to the public as to its investments, its target rate of return and its risk profile.

Separately, the Royalties for Regions fund is channelling a significant proportion of the State's finite royalty revenue into regional Western Australia. In the 2012-13 State budget, there were \$5.6 billion worth of projects to be funded through R4R over the forward estimates period, with a further \$1.1 billion unspent. This is more than the State's entire budgeted expenditure on education in 2012-13 and equivalent to one third of the State's current net debt.

CCI recognises the need to invest in the regions after years of underinvestment by successive governments. However, 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.

The next State Government should **improve the accountability and transparency of the R4R fund**.

The current process of applying for funds is somewhat fragmented and potentially inconsistent. The assessment criteria for projects are not clear, which may result in projects that do not deliver a significant benefit to regional communities receiving funding. Greater transparency would help alleviate some of these concerns.

Separately, to address concerns surrounding the governance and benefits of the Country and Local Government Fund within R4R, funding should be linked to wider local government reform in the regions (see Public Sector Reform).

Priorities for the next Government of Western Australia

- ▶ Whole of Government program review.
- ▶ Structural reform of agencies.
- ▶ Fully implement the Economic Audit Committee (EAC) report.
- ▶ Implement the findings of the Metropolitan Local Government Review.
- ▶ Review regional Local Governments.

Public sector reform

Ensuring that the State's public sector is operating as efficiently and productively as possible should always be a priority for Government. Continuous improvement in the public sector is a key mechanism to reduce pressures on the State budget and to ensure our economy remains competitive. In the current difficult economic circumstances it is particularly important that the next State Government make a concerted effort to control public spending and improve the efficiency of the public sector.

Reining in public sector spending

In the current environment of heightened economic uncertainty and volatility, receiving the best value from every tax payer dollar is even more important. Excessive spending could threaten the sustainability of the State's finances and damage the State's economic competitiveness, by forcing a greater reliance on taxes and charges.

In this environment and over the long term governments need to carefully manage spending. However, successive State Governments have breached their own spending targets. Spending growth has averaged 8.7 per cent per annum over the past decade, well above inflation (three per cent), population growth (2.2 per cent) and economic growth (4.7 per cent). As a result, real per capita operating expenses, the State's accepted benchmark of expenditure growth, have increased from \$7,608 per person in 2000-01 to \$9,987 in 2011-12. Continued real spending growth of this magnitude is not sustainable. With Government revenue expected to weaken in the short term, the need to rein in spending growth is even more pressing.

The next State Government must **commission an independent review of Government spending programs**, and undertake such reviews once every five years. The initial review should aim to reduce real per capita operating expenses from the 2011-12 level.

At an overarching level, the review should be conducted with a view to removing those activities which are no longer relevant, not priorities or are not delivering an overall benefit to the community. It must also include a structural review of agencies and departments to help address management and accountability issues between agencies, including the duplication of services, inconsistent policy objectives across agencies, competition for resources, and blurred lines of accountability and responsibility.

The next State Government should also look to boost the efficiency of the public sector, by **implementing the key reforms of the Economic Audit Committee (EAC)**.

A high priority in this regard is continuing efforts to engage the non-government (private and not-for-profit) sector in some areas of service delivery. This is particularly important in the community services sector where non-government organisations can often provide the same (or improved) services as Government agencies but at a lower cost.

The next State Government should **look for further opportunities to engage the business, community and not-for-profit sectors in service delivery** while ensuring that outcomes are appropriately monitored. Initiatives in the disability services sector, apprenticeships and traineeship support services, independent schools and plans for greater private involvement in health services represent positive steps. However, the EAC recommended additional private sector involvement in education, public housing and community services in Western Australia, where non-government involvement is below national averages¹³.

The next State Government **should also look to implement the EAC recommendations related to the people management structure of the public service**, to improve the accountability of agency heads, and ensure the public service can attract and retain talented staff.

The legislation governing the management of the public service has not been substantially changed in close to four decades and should be updated to ensure a more professional approach to people management, remuneration and work standards. In particular, the next State Government should **amend the Public Sector Management Act 1974 to allow for involuntary redundancies and lift the freeze on attraction and retention benefits**. Changes should seek to make the public service a more attractive place to work while improving employer flexibility.

Measures that should also be adopted to improve agency accountability include:

- ▶ adopting an outcomes based approach to measuring agency performance; and
- ▶ conducting value for money audits on procurement and other expenditures.

Local Government reform

More needs to be done to help business navigate through different local government rules and regulations.

The next State Government should **implement the findings of the Metropolitan Local Government Review** to improve the sector's efficiency and deliver improved and more consistent services to business and residents.

In addition to amalgamations of local councils, the other key recommendations of the Review that should be implemented in the next term of Government include:

- ▶ encouraging greater consistency amongst local government building and approval processes for business, to reduce compliance costs, particularly in the areas of planning and approvals; and
- ▶ moving oversight responsibility for Perth airports, universities and major hospitals from local government to the Metropolitan Redevelopment Authority.

The next State Government should also **commit to a conduct similar review process for regional local governments** within the next term of Government.

The next State Government should also develop a web platform where all local government compliance and licensing / permit procedures and costs are published to enable comparison of the cost of doing business in different local government areas. This would provide a spur to local governments to adopt a best practice approach to regulation.



Priorities for the next Government of Western Australia

- ▶ Actively participate in the State Tax Review process.
- ▶ Implement COAG Business Advisory Forum priorities.
- ▶ Deliver education funding reform.
- ▶ Migration that meets Western Australia's workforce needs.
- ▶ Pursue a National Disability Insurance Scheme with a federated governance model and Commonwealth funding.
- ▶ Abolish duplicative not-for-profit regulations.
- ▶ Consider funding options for the National Injury Insurance Scheme (NIIS).

Federal-State relations

Since Federation, there has been repeated conflict between the States and the Commonwealth over jurisdictional boundaries. This issue has become increasingly significant in recent times, with the Commonwealth Government taking a more active role in areas that have traditionally been State Government responsibilities.

A key issue on which the debate is centred is Commonwealth-State financial relations, given the mismatch between the spending responsibilities and revenue raising capacity of the states. This issue has become particularly pressing for WA, given the projected decline in the State's share of GST revenues.

A range of federal state relations issues will require the detailed attention of the next State Government including:

- ▶ **Tax Reform:** The ambitious tax reform agenda needed to boost the nation's productivity and address imbalances between Commonwealth and State finances can only be achieved by considering the Commonwealth and State tax systems as one regime. This will require a collaborative approach between both the Federal and State Governments and should not be constrained by the need to be revenue neutral. An opportunity for this level of engagement is the State Tax Review, which was commissioned out of the Federal Tax Forum to examine ways of removing inefficient State taxes. The next State Government should **actively participate in the State Tax Review process**, with a view to reducing the State's reliance on Federal grant revenue. This could be achieved by broadening of the base of the GST or reassigning income taxing powers.

► **COAG regulatory reform:** The next State Government should also **actively pursue the reforms agreed to at the COAG Business Advisory Forum** to reduce duplication between State and Commonwealth red tape. In this context, priorities for the Western Australian Government should include streamlining environmental assessments and approvals, improving the efficiency of major project approvals and removing unnecessary carbon reduction and energy efficiency initiatives. The next State Government should redouble efforts to reach agreement with the Federal Government, following slow progress to date.

There are also a range of other areas where the Commonwealth is seeking to harmonise approaches across the states to streamline regulation and reduce duplication. The harmonisation of workplace safety and health laws and the Australian Charities and Not-for-profits Commission are two prominent examples. Where Commonwealth legislation duplicates that in the state, every effort should be made to remove the duplication.

► **Review of School Funding:** With the recent release of the Review of School Funding and the Commonwealth Government's response, the next State Government faces a significant challenge to reform education funding in Western Australia. It needs to work with the Federal Government, education providers (both private and public) and the local community, to establish a system that is effective, efficient and transparent. Working with the Federal Government, the next State Government should **set and implement a new school resource standard as recommended in the of the Review of Education Funding** to allow the distribution of funding to every child to be delivered in a fair and transparent manner, while managing the potential impact on the State budget.

► **Migration:** Overseas migration has been and will continue to be a critical source of labour in WA. Sourcing semi-skilled workers in regional areas of Western Australia is a particular concern. The State Government needs to continue to work with the Federal Government to ensure the migration program is meeting WA's needs. In particular, **employers in regional areas should be able to offer concessions to attract workers to regional WA and the State should work with stakeholders to establish a pilot Regional Migration Agreement in WA.**

► **National Disability Insurance Scheme (NDIS):** CCI outlined its views in the paper *National Disability Insurance Scheme* paper of May 2012. While existing client focused or individualised funding arrangements for disability services in Western Australia are generally viewed positively within the sector, CCI believes improvements can be made to the way disability services operate. In particular the levels and certainty of funding could be improved, but the existing system should be extended not changed. The next State Government should **pursue NDIS arrangements that create a federated governance model which leaves WA in charge of its own system but with the additional surety of funding from the Commonwealth into the future.**

► **Australian charities and not-for-profits commission (ACNC):** The intention of the ACNC is to reduce the regulatory burden for the community and not-for-profit sectors. While the ACNC looks to remove duplication and streamline reporting, it is not clear this will be achieved without commitment and action from State Governments. On the passing of the ACNC Bill, the next State Government should **abolish State requirements that duplicate reporting and registration requirements for charities and not-for-profits under Commonwealth legislation within the 12 months from coming in to office.**

► **National Injury Insurance Scheme (NIIS):** The Productivity Commission recommended that the implementation of a no-fault approach for lifetime care and support of all catastrophic injury (NIIS) should be State based. The next State Government needs to establish a structure to oversee the NIIS and consider funding options.

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