



# **2008-09 Pre-Budget Submission to the WA Government**

**November 2007**

**Prepared by the Chamber of Commerce and Industry of  
Western Australia**

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A Submission to the WA  
Government in Advance of  
the 2008-09 Budget



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## About CCI

The Chamber of Commerce and Industry of Western Australia (CCI) is the leading business association in Western Australia.

It is the second largest organisation of its kind in Australia, with a membership of over 5,200 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private businesses, but CCI also has representation in the not-for-profit sector and the government sector. About 80 per cent of members are small businesses, and members are located in all geographical regions of WA.

## Executive Summary

The WA Government is presiding over one of the strongest periods of economic growth and development in the State's history. This poses unique challenges for the WA Government to ensure that it has in place the right policy settings to ensure that the State is well positioned to sustain and leverage off current and future economic opportunities.

The most important policy challenge that is facing Western Australia is the emergence of critical and widespread **labour shortages**.

Since the current phase of economic expansion started six years ago, almost 200,000 jobs have been created in the WA economy. However, these additional people employed throughout the WA economy have not been sufficient to meet demand, with labour shortages becoming a key limiting factor to additional growth in this State.

Looking forward, demand and investment projections indicate that Western Australia's current economic expansion will continue for a number of years, which will require a significant increase in the workforce to facilitate such growth. CCI estimates that based on economic growth being maintained at the average rate of growth experienced over the past six years, an additional 400,000 workers will be required in the WA economy over the next 10 years.

These additional labour requirements cannot be met on the basis of the current labour market and population trends. In the absence of new measures to grow the workforce, it is estimated that there will be a shortfall of up to 150,000 workers in Western Australia by 2017.



Labour shortages of such magnitude will make it difficult (if not impossible) for investment projects which are currently planned to be realised in the medium to longer term.

CCI urges the WA Government to take the lead on this issue. While many of the ways by which labour supply can be increased rests with the Commonwealth Government, the WA Government has an important role in facilitating the development of human capital. This includes articulating the importance and urgency of this matter to its Commonwealth counterparts – which is particularly important when it is not apparent that there is an understanding of the extent of labour shortages in WA at the federal level.

The other significant social and economic issue for Western Australia is **housing availability and affordability**. While this issue has significant social implications which necessitate government action, it is also important as it is creating a barrier to people moving to WA to take up the range of job opportunities which are available throughout the State.

Other key economic reforms that the WA Government should focus on as part of a broad economic agenda include a renewed agenda of **competition reform**, tackling the concerns associated with **approvals processes**, undertaking a specific program to reduce **regulation and red tape**, including particularly in the area of retail hours regulation and enhancing capital city (i.e. Perth) vibrancy.

In addition to these broader policy issues that require government leadership and vision, CCI's submission calls on the Government to strike a new balance in its budget policies which include maintaining sustainable budget surpluses and net debt consistent with a AAA credit rating. It also calls on the Government to exert control over general government spending, and moving to ensure a competitive taxation system.

CCI is increasingly concerned that the record budget surpluses that have been achieved over the past four years have encouraged a worrying trend of excessive growth in government spending as a result of even stronger growth in taxation revenues. This is evident in Government decisions in a wide range of expenditure areas and in the public services approach to budget management.

Overall, control over general government expenditure is the cornerstone of good financial management. However, the excessive growth in recurrent spending has the potential to threaten the sustainability of public finances over the medium term, and damage the economy's competitiveness through dependence on high taxes and charges.

In order to address such trends, it is important that reforms be implemented which ensure the public service is operating efficiently and effectively. Such reforms



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include: a commitment to a further machinery of government review to reduce the number of departments and agencies; regular cross-agency reviews of spending priorities (functional reviews) to ensure that resources are directed to their most valuable uses across government; and regular reviews of the efficiency of program delivery within agencies. The main findings of these reviews should be made public to ensure community understanding of decisions in critical areas of service delivery.

By controlling the growth in general government expenses, this also provides an increased capacity for the Government to provide meaningful taxation reform and crucial social and economic infrastructure.

The WA business community makes a significant contribution to the economy's prosperity in this state. While the State is enjoying the benefits of strong commodity prices and buoyant growth, it should not be assumed that this is evenly distributed across all sectors of industry. Small and medium businesses continue to face substantial cost pressures and the Government should seek to ensure that sector's competitiveness. Accordingly, priority should be given to providing substantial taxation relief as part of the upcoming budget.

On a per capita basis, WA's taxation environment is clearly the least competitive of any state. Payroll tax is one such tax which has a significant impact on business competitiveness, particularly for those businesses which compete in global markets. CCI is seeking the Government follow the lead set by the Victorian and South Australian Governments in their last budgets by **cutting payroll tax by 0.5 per cent** to 5 per cent in the 2008-09 Budget.

Additional taxation relief in areas of conveyancing, insurance duty, and in various threshold adjustments amount to total relief of \$529 million in 2008-09 and \$2.5 billion over four years. Relief of this magnitude is affordable given the strength of future economic activity, the very low levels of net debt, and the size of budget surpluses going forward, even with current levels of spending provided for.

The Western Australian Government plays a key role in the economic development of the State through the provision of high quality social and economic infrastructure. CCI believes that the most appropriate means by which infrastructure priorities should be identified is through the State Infrastructure Strategy, which will provide stakeholders with the opportunity to help decide the appropriate prioritisation of infrastructure projects for the State. In the absence of this process being finalised, CCI has compiled a list of ten key economic and social infrastructure priorities for consideration as part of the 2008-09 Budget:

1. **Broadband in WA** - progress initiatives such as the State Broadband Network, particularly in areas North of Perth. Competition must be introduced into these networks to encourage price reductions;



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2. **High Wide Load Corridor 2** – links the Kewdale/Welshpool industrial area to the Australian Marine Complex and the Kwinana Industrial Area. The go-ahead for large projects such as Gorgon and Pluto make this infrastructure critical for local industry to compete. In order to complete this corridor, it is estimated that an additional funding requirement of \$10 million is required;
3. **Upgrade of Perth Airport** – work with WA Airports Corporation and stakeholders to ensure the expansion and improvement of Perth Airport, including the road transport links in and around the airport;
4. **A New Multi-Purpose Outdoor Stadium** – finalise the location and governance issues and proceed to the next stage of its development;
5. **Western Foreshore Development** – continue current process to secure Government commitment to a world class planning design in February 2008;
6. **Northbridge Link** – commit to progressing the Northbridge Link and the sinking of the rail line;
7. **Indian Ocean Drive** – commit to the completion of the 194 kilometre coastal road between Lancelin and Cervantes, which will enable the development of the Central Coast for tourism by improving access and decreasing travel times from Perth, opening up a range of investment opportunities at Lancelin, Cervantes, Jurien Bay and other coastal towns through to Geraldton;
8. **Bunbury Outer Ring Road** – commit to building the Outer Ring Road that will provide access to proposed industrial areas to the east and south east of Bunbury and linkages to the Perth – Bunbury Highway, South Western Highway, Bussell Highway and the Port Access Road;
9. **Fremantle Inner Harbour Deepening** – commit to deepen the Fremantle Inner Harbour to adequately accommodate the larger sized container vessels now entering for Australian trade, allowing this trade to be efficiently handled into the future; and
10. **Arts and Culture** - consider creating an arts precinct in Perth, such as the proposed precinct around the Perth Concert Hall which would include new homes for Perth's ballet, opera and the WA Symphony Orchestra. The other key cultural project that needs to be considered as part of this overall vision is the development of a new museum. CCI favours the development of the cultural precinct for a new museum as it will enable ease of access and consolidation of cultural facilities in a central city location.



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In light of the current financial position, CCI believe there is scope for the WA Government to address these key funding priorities whilst maintaining strong budget surpluses. Such priorities will also go a long way to addressing key issues associated with taxation competitiveness and infrastructure provision – two critical areas which can help ensure continued growth and development in WA for years to come.



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## Economic & Social Agenda

The current period of economic prosperity has created significant wealth for the state – for businesses, governments and the wider community. However, the extent to which the economy has grown has brought with it some challenges and constraints which could threaten the overall positive outlook for the WA economy.

It is important that the Government articulate a clear long term vision for Western Australia and embraces economic reform, which has been critical to the development of the state.

The most important challenge facing Western Australia is the presence of increasingly critical and widespread **labour shortages**, which require urgent government leadership and action.

The other significant social and economic issue for Western Australia – and one which is closely related to labour shortages – is **housing availability and affordability**. While this issue has significant social implications which necessitate government action, it is also important as it is acting as a barrier to people moving to WA to take up the range of job opportunities which are available throughout the state.

Other key economic reforms that the WA Government should focus on as part of a broad economic agenda include:

- a renewed agenda of **competition reform**;
- addressing concerns associated with **approvals processes**; and
- undertake a specific program to reduce **regulation and red tape**.

These elements of a broad economic and social reform agenda are discussed briefly below.

### Labour Shortages

On 7 November 2007, CCI released its detailed study into the state's labour force requirements, *Building Human Capital*. The report found that labour market conditions in Western Australia have never been tighter, and that without measures to address these shortages, will have the potential to hold back the future growth in the WA economy.

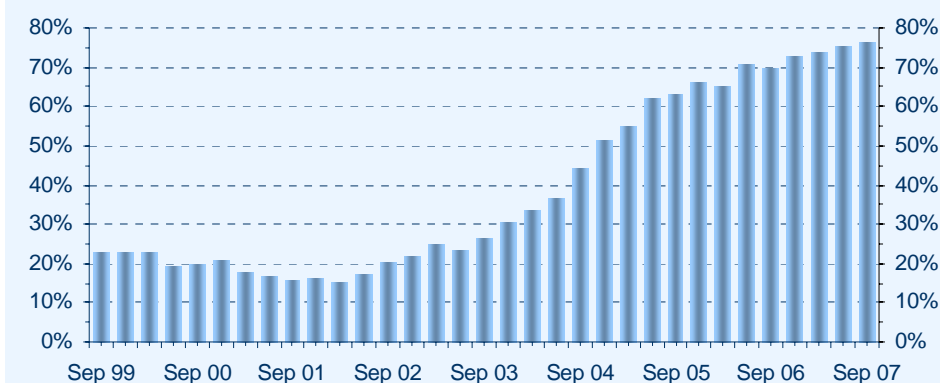
Since the current phase of economic expansion started six years ago, almost 200,000 jobs have been created in the WA economy. However, these additional people employed throughout the WA economy have not been sufficient to meet



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**Chart 1**  
**Labour Scarcity, WA**  
% of WA firms saying labour is "Scarce"



Source: Commonwealth Bank-CCI Survey of Business Expectations

demand, with labour shortages becoming a key limiting factor to additional growth in this state.

According to the latest Commonwealth Bank-CCI Survey of Business Expectations, a record 76 per cent of all businesses surveyed reported labour as scarce (Chart 1). And the scarcity of labour is evident across all industry sectors, all business sizes, and all occupation groups.

While the emergence of increasingly acute labour shortages has in the short term been the result of the state's exceptionally strong economic performance, there will be long-term consequences for the state in the form of missed opportunities if not addressed.

It is expected that Western Australia's current economic expansion will continue for a number of years, which will require a significant increase in the workforce to facilitate such growth. CCI estimates, on the strength of business investment and offshore demand for resources, economic growth will be maintained at the average rate of growth experienced over the past six years. On that basis it is expected that an additional 400,000 workers will be required in the WA economy over the next 10 years.

These additional labour requirements cannot be met on the basis of the current labour market and population trends. In the absence of measures to grow the workforce sufficiently, it is estimated that there will be a shortfall of 150,000 workers in Western Australia by 2017.

CCI believes that it is imperative that a human capital strategy be developed – one which will help to increase the size of the labour force (such as through population increase and enhanced labour force participation) and through measures to improve the productivity of the current workforce.



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There are a host of other broader strategies that need to be addressed by Government when developing a human capital strategy. While population growth and increased labour force participation is critical to boosting the supply of labour, equally important is to ensure that the productivity of the workforce increases.

Addressing housing affordability and improving the vibrancy of Perth and the regions are also critical components of a broad human capital strategy to the extent that they have been barriers to people moving to Western Australia.

CCI believes that the WA Government must take the lead on this issue. While it is understood that many of the ways by which labour supply can be increased rests with the Commonwealth Government, the WA Government has an important role in articulating the importance and urgency of this matter to its Commonwealth counterparts – which is particularly important when it is not apparent that there is an understanding as to the extent of labour shortages in WA.

CCI has called for a well planned and co-ordinated national approach to ensure there will be sufficient people entering the labour market. Among the key recommendations identified in the report are:

- increasing Australia's permanent immigration intake, along with measures to increase the allocation of places under the employer sponsored permanent migration program, given the increased use of 457 visas in recent years;
- expand the occupations that qualify under the temporary immigration program, and provide for additional flexibility to allow businesses to import a broader range of skills from overseas where a clear need can be identified, and no available labour can be sourced from within the domestic market;
- cuts to personal income tax rates to ensure the taxation system remains internationally competitive and encourages greater labour force participation;
- allowing child care to be salary sacrificed;
- determining ways in which certain forms of government assistance can be modified to actively assist and encourage people to migrate to and take up jobs in areas where labour shortages are particularly pronounced;
- developing programs which aim to improve the educational attainment of specific segments of the workforce, including older workers, the long-term unemployed, people with disabilities, and indigenous Australians;
- providing further education and training to segments of the workforce, including older workers and the long term unemployed, to raise their productivity;



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- introduce greater innovation into the education system, including through reforms to funding arrangements which are based on improving outcomes rather than following processes;
- maintaining the current industrial relations reforms which have delivered greater flexibility and productivity in the workplace;
- the WA government to embrace COAG's National Reform Agenda, which will help deliver productivity improvements throughout the economy;
- address housing affordability (see discussion below); and
- embrace an agenda to improve the vibrancy of Perth and the regions.

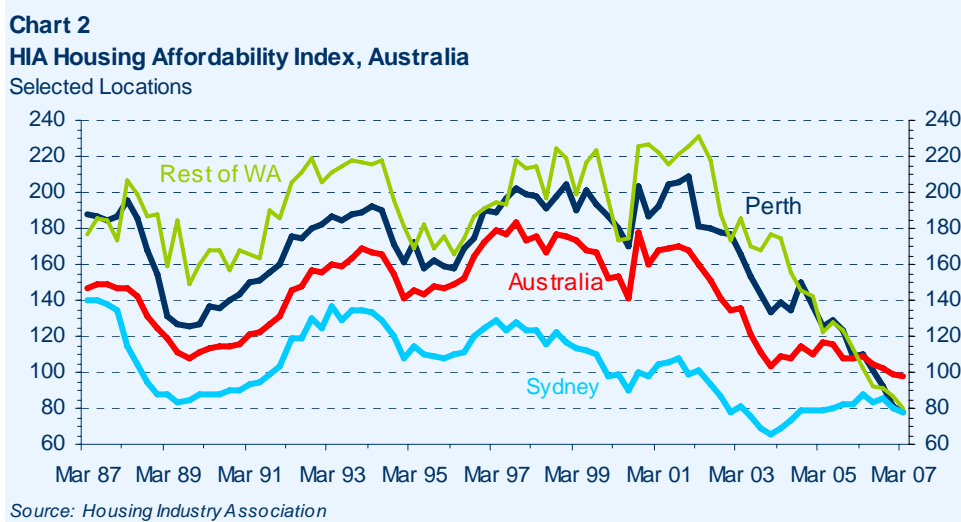
## Housing Affordability

Housing affordability and a high level of home ownership have been major priorities of successive Western Australian Governments. Until recently, WA Governments have been relatively successful in sustaining affordable housing and high levels of home ownership.

These objectives have been pursued not just for social reasons but also for their contribution to attracting and retaining people in the State.

During most of the 1990's housing affordability in Perth was higher than the national average. It reached its peak in 2001 but since that time, has fallen dramatically. According to the latest figures produced by the Housing Industry Association (HIA), Perth overtook Sydney in March 2007 to become the least affordable city in the nation, while WA's regional centres, taken together, are the least affordable areas in the country after Perth and Sydney (Chart 2).

Western Australia's declining housing affordability is more than a major social



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issue. Increasingly it is a major economic issue impacting on the capacity of business and employers to respond to the growing economy.

CCI members in all sectors in the Perth metropolitan area and in regional centres throughout the State are concerned about the rising cost of land and housing, which is now having a serious impact on the capacity of employers to attract skilled and unskilled labour to Western Australia and to regional centres. This in turn is exacerbating the labour shortages being experienced by a majority of employers.

Western Australia has lost its attractiveness as a place where people on moderate incomes can buy a home at a reasonable rate. Indeed, it has become a high cost destination — on a national and international basis — compared to local earning capacity.

The overarching objective of all arms of the state government should be to retrieve Perth's previously enviable position on housing affordability.

This will require priority to be given to ensuring that land is released to the market. As part of its submission to the Government's *Economic Review of Land and Housing Markets in Western Australia*, CCI has made a number of recommendations in this submission, all of which are intended to ensure that this priority is met.

The overall objective must be to make housing affordability an ongoing and top priority. Some of the key recommendations outlined in CCI's submission include:

1. expanding the volume of land zoned in the Perth metropolitan area as residential and "residential-deferred" at least in line with the consumption of land;
2. addressing barriers which inhibit or restrict the development of land zoned residential on the margin of the urban areas;
3. the establishment of more realistic and achievable infill targets and remove any barriers to their development;
4. changes to regulations to allow increased construction of multi-dwelling units; and
5. allowing more market-based decisions to be made in relation to determining block size and amount of open space.



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## Competition Policy

Competition is vital to developing a stronger economy. Competition gives businesses the incentive to ensure that goods and services are delivered as efficiently as possible, to improve the quality, quantity and efficiency of their operations and to innovate.

With National Competition Policy drawing to an end in 2005, it was important that the process continue. Importantly, COAG agreed to a new national reform agenda in February 2006, which included a recommitment of governments to the principles contained in the *Competition Principles Agreement*. Jurisdictions have also agreed to continue to strengthen gate-keeping arrangements established under the NCP to prevent the introduction of unwarranted restrictions on competition in new and amended regulations. It was also agreed that all outstanding priority legislation reviews from the NCP review program would be completed.

The re-commitment to the principles of competition by all Australian Governments is particularly important for Western Australia, given the poor record that successive State governments have had in implementing competition reform under the NCP.

Both sides of Western Australian politics, when in government, have failed to pursue comprehensively and with commitment, competition reforms. It is also worrying to see the current State Government advocate further inappropriate intervention in markets to the detriment of competition despite having committed to competition principles.

The NCP agenda required governments to reduce structural and legislative impediments to competition and adhere to principles of competitive neutrality. Major NCP reforms in Western Australia centred on structural reforms (particularly in the energy sector), but more can be done in this regard. There is also a significant amount that needs to be done in relation to key legislative reforms and in the application of competitive neutrality in WA.

CCI's Competition Policy Discussion Paper detailed a broad agenda for competitive reform in Western Australia in concert with the new *National Reform Agenda*.

One of the key reforms centred on the restrictive liquor licensing regulations, which restrict competition by requiring license applicants to satisfy a needs test proving that the licence is necessary to provide for the requirements of the public, and by allowing hotel bottle shops to sell liquor on Sundays, when other liquor outlets are prohibited from doing so.



CCI applauded the Western Australian Government for its pro-reform stance on this issue, and with bi-partisan support this reform passed through Parliament in December.

However, there are a number of other reforms still outstanding in Western Australia. The key legislative reforms centre on:

- the need to liberalise 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 below);
- removing Western Australia’s archaic potato marketing regulations, 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;
- 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; and
- addressing the complex and overlapping inter-jurisdictional regulatory framework that currently prevails in Australia’s food industry, which leads to differences in the trading environment faced by businesses according to their state of operation. Competition within the current framework is also constrained by the legislative process that must be followed for developing or amending food standards.

The key structural reforms centre on:

- opening the water industry to greater private sector involvement by improving pricing transparency, and proving a more co-ordinated and structured approach to planning. More stringent application of competitive neutrality principles in this sector is also vital;
- introducing more efficient pricing of road and rail freight infrastructure, and reducing inefficiencies in the transport sector by simplifying regulation and introducing nationally consistent regulations across state jurisdictions;
- improving competition in the provision of infrastructure by advocating commercially negotiated access arrangements where possible and developing nationally consistent principles for determining access prices where third-party access regimes are needed. Government should also tighten its application of



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competitive neutrality to its business enterprises engaged in significant commercial activities in competition with the private sector in the provision of infrastructure;

- where applicable, pursuing reforms and policies in the energy sector which are consistent with the goal of achieving a national market for energy; and
- developing a formal, nationally consistent framework for dealing with the issue of greenhouse gases (with enough flexibility to accommodate the differing needs of each jurisdiction).

Like NCP, governments at all levels will have a central and continuing role in elaborating and implementing the new *National Reform Agenda*. However, in Western Australia, relying on the government to take responsibility for reforming its own laws has not been successful, primarily due to a lack of political will and a lack of impartiality in reviewing anti-competitive arrangements.

Under the current structure, each government agency is responsible for reviewing anti-competitive legislation which fall under its jurisdiction, while the Department of Treasury and Finance is the gate-keeper for regulation and is also responsible for investigating competitive neutrality complaints.

To date, these arrangements have had at best limited success. The National Competition Council (NCC) assessed Western Australia as not having complied with its reform obligations with regard to competitive neutrality and legislation reviews, and rated the state's regulation gate-keeping arrangements equal lowest of all states (along with New South Wales and the ACT).

Effective administrative arrangements therefore form a critical part of any competition policy agenda. In order to achieve this, CCI recommends that the responsibility for carrying out reviews of legislation under the agreements of the new *National Reform Agenda* be transferred to the Economic Regulation Authority (ERA).

These include the responsibility for reviewing anti-competitive regulation and structure, 'gate-keeping' responsibilities, and the responsibility for administering the government's competitive neutrality policy.

As the independent economic regulator for Western Australia, the ERA currently oversees regulation and licensing for the gas, electricity, water and rail industries. Synergies already exist between the functions of the ERA and the objectives of competition policy. Indeed, the *Economic Regulation Authority Act 2003* allows for the State Treasurer to refer any matter related to a regulated industry to the Authority for the purposes of an inquiry.



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The likelihood for more independent and robust review of regulation and competitive neutrality issues would be significantly enhanced under this proposed structure, and would place Western Australia in a similar position to other states that have established independent public bodies to provide advice on broad issues of competition and reform.

### Retail Trading Hours

The issue of retail trading hours has long been one of contention in WA, with much debate surrounding the issue since the *Retail Trading Hours Act 1987* commenced in 1988. While the extension of trading hours was taken to referendum more recently in 2005, the state has since experienced a significant economic and demographic transition, which has brought about the need for the issue to be re-examined.

WA is one of the only remaining jurisdictions across Australia (aside from South Australia) which has not deregulated retail trading hours in line with the National Competition Policy. Retail trading hours in WA are governed by the *Retail Trading Hours Act 1987*, which is complicated and riddled with inconsistencies.

The economic transition of the state in recent years is a driving force behind the need to remove restrictions on trading hours. WA is now a services-based economy, with retail trade a key contributor to this sector, and a key beneficiary of the state's strong economic performance. Importantly, the retail sector itself has also undergone significant change in recent years, with the emergence of Metcash as a third major player in the State's grocery market. However, despite the state's high growth profile, the retail sector still only makes a low contribution to the economy overall, compared to other states and territories.

The current resources boom has also created the need for WA to attract overseas and interstate workers to fill the burgeoning job vacancies. Deregulated trading hours could prove to be central in creating a social environment which would assist in attracting these workers and their families to the state. It is also likely to be an important factor behind attracting more permanent migrants, which would ensure that growth is sustained over the longer term. This is of particular importance for WA, given that it has difficulty attracting and retaining younger workers.

In September 2007, CCI released its study into retail trading hours, *Retail Trading Hours in Western Australia: A Case for Reform*. This report found that there is significant evidence to suggest that the deregulation of retail trading hours will benefit the state.

While WA's retail sector has already benefited significantly from the state's strong economic performance, this could be improved further by the deregulation of retail



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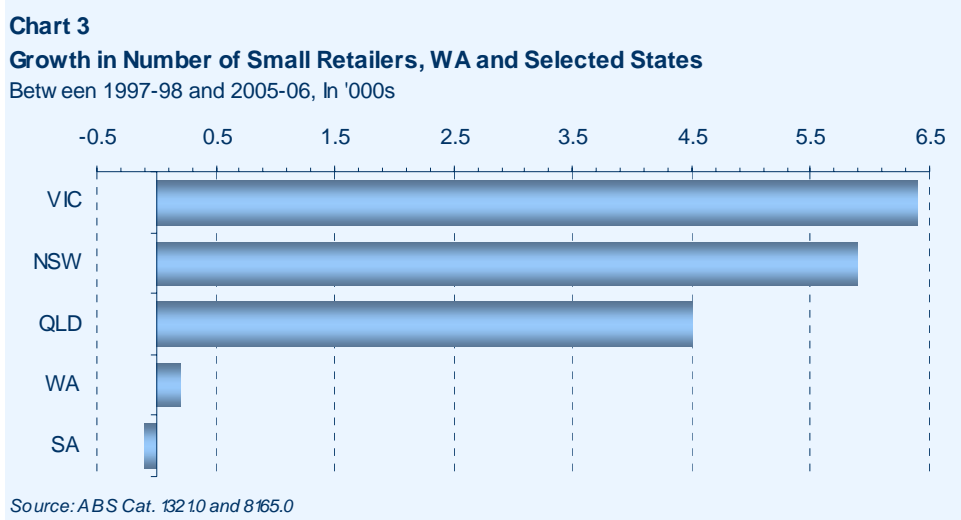


trading hours. Overall, experiences in other states have shown a marked pick up in economic activity across the board, with the retail sector in particular benefiting from higher retail sales, greater employment and investment.

Not only will extended retail trading hours stimulate the economy and provide benefits in terms of higher output and employment, it will also provide a range of benefits to society overall, by making WA a more attractive and desirable place to live. Consumers will also benefit from the greater freedom to choose when and where to shop.

While opponents of deregulation argue that the retail sector (particularly small businesses) will be adversely affected by extended trading hours, the report found that experiences in other states have shown that this is not the case. In fact, there is a strong argument to suggest that small retailers will be significant beneficiaries from deregulation.

Official data from the ABS on the numbers of small retail businesses in each state shows that in Western Australia and South Australia, both of which maintain



restrictions on trading hours, the growth in small businesses has been limited. By comparison, in the other states which maintain a deregulated trading environment, small retail business numbers have increased considerably – both in absolute terms and in percentage terms (Chart 3).

## Approvals Processes

In the current economic cycle which is delivering unprecedented growth and opportunities for the State, WA cannot afford an inefficient approvals process that delays development and limits opportunities.



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The Government's response to the Keating Review has been to establish the Integrated Project Approvals System (IPAS) in 2004 to support agency level implementation of reforms. CCI welcomed the establishment such infrastructure and the establishment of the Office of Development Approvals Coordination (ODAC) in January 2006. ODAC resides in the Department of Premier and Cabinet and is mandated with coordinating the whole of government project scoping activities and approvals.

CCI supported the establishment of the Office, however it remains to be seen whether the mandate under which ODAC operates will facilitate streamlining of major project approvals in WA. The current ODAC mapping project sets out the process for proponents seeking to obtain approvals, but is not concerned with identifying duplications and overlaps when a proponent undertakes the regulatory approval process.

CCI believes that in order to improve ODAC's function, reforms must be made that include the mapping of regulatory approvals for WA to address the duplications and overlaps which can exist.

Such a reform will help to address the worrying slide in Western Australia's competitiveness in relation to its approval processes. This was highlighted in the Fraser Institute's Annual Survey of Mining Companies in 2006-07, which ranked Western Australia as the 18<sup>th</sup> most attractive jurisdiction in terms of its mining-related policies – well up from 11<sup>th</sup> the previous year. Significantly, Tasmania, South Australia and Queensland all ranked above WA to be in the top ten globally.

## **Regulation and Red Tape**

Business regulation can enhance business but it can also constrain it. Effective regulation is a vehicle to ensure the government's social, environmental and economic objectives are met. The objective of regulation is to prohibit certain behaviour (anti-competitive conduct), restrict or require certain practices and reduce the risk of harm (safety/environmental controls).

Future regulation must provide a reasonable balance between protection and compliance costs. Its design should achieve competitive neutrality, transparency, minimal overlap and duplication and have an appropriate balance between efficiency and effectiveness.

To achieve its goal, regulation must generate good practice. Poor regulation results in avoidance behaviour, inefficiencies, reduced innovation, lower productivity and high cost.

In 2006, CCI surveyed its membership in order to understand clearly how much time and effort the State's business community spends in complying with various



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regulatory obligations. Overall, the sheer number of regulations that businesses are required to comply with appears to be the biggest concern for the WA business community, while issues such as the cost of compliance and the severity of penalties for failing to comply are also key concerns.

In aggregating the time spent by respondents on complying with existing regulations, researching new or amended laws and/or changing internal systems to cope with new or changed laws, it was found that small businesses spent up to 18.5 hours every week in the past year dealing with these three aspects of compliance. Medium-sized businesses spent up to 26.4 hours every week in the past year on these issues, while large firms spent an average of 70.3 hours on regulation issues in a working week.

Overall, the largest proportion of this time spent relates to labour related regulations (workplace relations, occupational safety and health, injury and claims management), followed by taxation matters.

In putting a dollar cost on this time, the average cost of compliance for small businesses was approximately \$24,500 per respondent, followed by medium sized firms with an average cost of \$100,255. Large firms had the highest average compliance cost of all with a cost of around \$525,421 per respondent.

However, removing outliers from the sample of large firms left this group with an average cost of \$180,788 per respondent. Extrapolating these costs over the entire WA business community (weighted according to business size without removing outliers) yields a total cost of compliance of approximately \$2.1 billion in the past year in Western Australia. This accounts for almost 3.5 per cent of WA business income, or around two per cent of gross state product.

CCI adopts the following key principles to shape and inform Australian and West Australian regulatory activity:

- Government intervention can range from market discipline to State ownership. It should be minimal and the least preferred option for achieving policy outcomes.
- Nationally consistent framework requiring all governments to adopt consistent legislative and regulatory requirements which support efficiency, competition and innovation.
- Mutual recognition requiring agreements amongst all jurisdictions to pass the necessary legislation enabling mutual recognition within relevant areas.
- Outcome based, requiring regulations to specify outcomes rather than process.



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- Prescription limited to certain minimum requirements such as speed limits or health exposure levels.
- Sound social and economic purpose requiring governments to fully assess all legislative and regulatory proposals against appropriate nationally consistent criteria (Regulatory Impact Statement).
- Removal of redundant regulation requiring governments to establish an active regulatory monitoring and review program. The following criteria for regulatory control should be applied:
  - Demonstrated need for regulatory intervention.
  - All regulatory proposals to be subject to a regulatory impact statement to guide policy determinations.
  - Regulation should be time limited with a maximum limit of 10 years.
  - Regulation should not discriminate between government and non-government entities.
  - Regulation should not have differential application. The method of achieving compliance may be varied.
  - Regulation should be readily intelligible.
  - Elimination of arbitrary, ineffective or badly designed regulation.
  - Adoption of a 'one in one out' approach to managing regulation.

The costs associated with excessive regulation and red tape also impact on the ability of businesses to operate efficiently in Western Australia. In order for the Western Australian Government to reduce the costs associated with regulation and red tape, which amount to billions of dollars per annum across the business sector, it should look to introducing reforms or targets to reduce the burden associated with excessive and unnecessary regulation. For example:

- simplifying and streamlining approvals processes should be actioned through the setting of appropriate performance benchmarks on the relevant agencies;
- regulation reduction targets could be imposed on key agencies to reduce the amount of regulation and red tape on WA businesses; and
- undertaking reforms to streamline approvals processes, particularly when overlap occurs across agencies and jurisdictions.



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These performance benchmarks and standards should be reported on by government agencies in a transparent manner through the annual budget process.

In addition, no new business regulation should be contemplated without a thorough and independent cost benefit analysis (including the full cost of the proposed regulation to business and identification of both quantifiable and non-quantifiable costs and benefits across financial, social and environmental factors) and no new regulation should be introduced without full consultation with the business sector. The cost benefit analysis should be in the form of a Regulation Impact Statement (RIS), which assesses the total cost to business of compliance, fees and paperwork and compares this total cost to business with the estimated benefits of the proposed regulation.

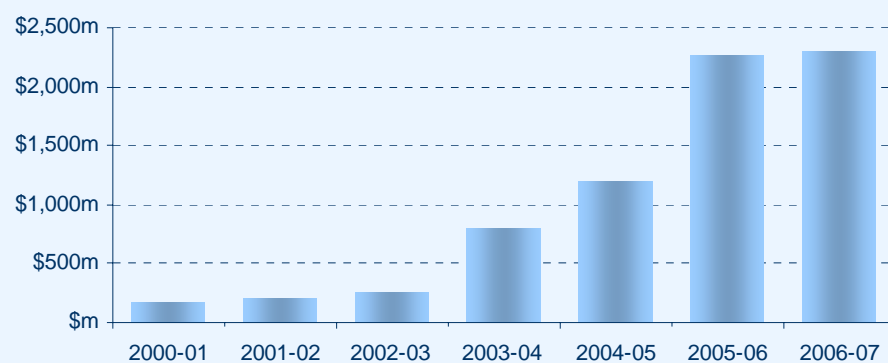


# Fiscal Management

## Recent Trends

The State's booming economy has brought with it increased demands for service provision but has been more than offset by an increasing tax take. The result has been the achievement of record budget surpluses in each of the past four years (Chart 4). While the achievement of strong budget surpluses is a key element of good financial management, it should not be viewed in isolation – indeed it has masked a worrying trend of excessive growth in government spending (well in excess of that planned for in annual budgets) and even stronger growth in taxation revenues.

**Chart 4**  
**Net Operating Balance**  
2000-01 to 2006-07



Source: State Budget Papers

These budget surpluses have allowed the Government to reduce net debt levels across the public sector to only \$3.0 billion, with a general government sector holding positive net debt balances of \$2.7 billion.

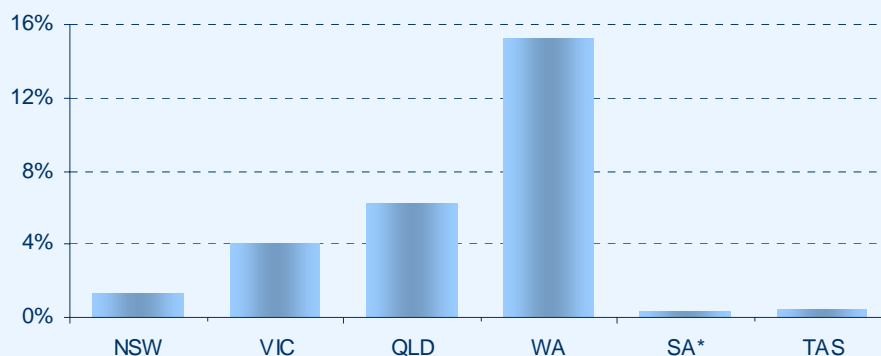
On net debt and other measures, Western Australia's financial position is significantly stronger than other States. For example, the size of WA's surplus as a proportion of the general government budget was just over 15 per cent in 2006-07 - significantly higher than for other states, with Queensland the next highest at just over six per cent and Tasmania and South Australia recording surpluses which are less than one per cent of their respective budget outlays (Chart 5).

This highlights the level to which the WA Government's revenues are meeting expenditure needs, relative to other states.



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**Chart 5**  
**Surplus as a Per Cent of the Budget**  
2006-07



Source: State Budget Papers, \*The SA result is based on estimated actuals.

## Taxation

In 2006-07, the WA Government collected \$17.5 billion in general government operating revenue. Of this amount, 32.8 per cent came from taxation revenues and 41 per cent came from Commonwealth grants (GST revenues and Specific Purpose Payments). Other sources of revenue were relatively small by comparison (see Table 1).

**Table 1**  
**General Government Operating Revenue**

	2000-01		2006-07		Total % Increase
	\$m	% Total	\$m	% Total	
Taxation	2,889	27.4	5,718	32.8	97.9
Current Grants and Subsidies	4,771	45.3	7,155	41.0	50.0
Capital Grants	276	2.6	448	2.6	62.3
Sales of Goods and Services	890	8.4	1,229	7.0	38.1
Interest Income	140	1.3	246	1.4	75.7
Revenue from Public Corporations	767	7.3	732	4.2	-4.6
Royalty income	654	6.2	1,468	8.4	124.5
Other	154	1.5	453	2.6	194.2
Total	10,540	100.0	17,451	100.0	65.6

Source: State Budget Papers

When a comparison is drawn with the 2000-01 position (when the GST was introduced and during which the current WA Government came to Office), it can be seen that the Government has significantly increased its taxation effort over the past six years, with taxation revenues as a percentage of total revenues increasing from 27.4 per cent in 2000-01 to 32.8 per cent by 2006-07.

Overall, taxation revenues have almost doubled, increasing by 98 per cent in just six years. This compares against increases of 50 per cent in revenues from current



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grants and subsidies, 125 per cent growth in royalty revenues, 38.1 per cent growth in revenue from the sales of goods and services, and a 4.6 per cent fall in revenues from public corporations.

The growth in taxation revenues comes as a result of the stellar growth in the WA economy, which has resulted in significant “bracket creep” across most State taxes, pushing taxpayers into higher tax brackets. Highlighting this fact is that over the same period, domestic economic activity in Western Australia has increased by 55 per cent.

Aside from land tax threshold adjustments, other state taxes have not had their rates or thresholds adjusted to ensure that the overall burden does not increase.

Meanwhile, other States have been active in providing tax cuts despite significantly weaker fiscal positions. For example, both the Victorian and South Australian Governments announced in their 2007-08 Budgets, initiatives to cut payroll tax, with South Australia cutting payroll tax to 5.25 per cent in July 2007, and further to five per cent from July 2008, while Victoria cut its payroll tax rate to 5.05 per cent on 1 January 2007 and then to five per cent by mid-2008.

The Victorian Government also announced further reforms to its land tax regime, including cuts to the land tax rates, the amalgamation of two tax brackets and an increase in the tax-free threshold. The NSW Government announced a reduction in its simpler, single land tax rate in its 2007-08 Budget.

These measures will undoubtedly result in a further deterioration of WA’s tax competitiveness unless relief is provided by the WA Government in the next budget.

## **Tax Priorities**

The unwillingness of the Government to provide genuine taxation relief has been the most disappointing aspect of its fiscal performance in recent years. It was particularly disappointing that the time and effort undertaken by stakeholders and the Department of Treasury and Finance (DTF) as part of the State Tax Review process did not amount to any meaningful reform, with the WA Government even rejecting the most conservative package of reforms recommended by DTF.

CCI believes that the WA Government has the opportunity and capacity to deliver the meaningful reform to the State taxation system that was expected of it following the finalisation of the State Tax Review.

Consistent with previous priorities for taxation reform, CCI’s package of reforms includes:



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- providing immediate payroll tax relief (at least a 0.5 per cent rate reduction) and an initial increase in the threshold to \$1.2 million as part of a broader strategy to provide a business environment that promotes growth and development;
- reducing stamp duty rates on property to 2001 levels;
- addressing broader tax reforms such as:
  - the indexation of tax thresholds for payroll tax and conveyance duty;
  - the calculation of stamp duty on insurance policies on a GST-exclusive basis; and
  - further simplification of land tax, through the progressive flattening of the land tax thresholds and the incorporation of the Metropolitan Region Improvement Tax (MRIT) into the land tax base;
- providing reforms not undertaken as part of the State Tax Review, such as:
  - a review of all exemptions and concessions;
  - the abolition of Perth Parking Levy (PPL); and
- pursuing a “stretch” goal to become the most tax competitive State.

Given the ongoing strength of its revenue base, these reforms are certainly within the Government’s reach. Overall, it is estimated that these reforms would cost approximately \$529 million in 2008-09. The cost of this package of reforms is detailed in Table 2 below.

**Table 2**  
**CCI Tax Reform Package**

	2008-09	2009-10	2010-11	2011-12	Total
Measure	\$m	\$m	\$m	\$m	\$m
Payroll Tax Cut to 5%	169	181	193	207	750
Increase payroll threshold to \$1.2 million	140	150	162	175	627
Abolition of PPL	10	10	10	10	40
Insurance duty on GST-exclusive basis	30	35	35	35	135
Absorb MRIT into Land Tax base	-	-	-	-	-
Payroll Tax Indexation	9	14	19	21	63
Conveyance Duty Indexation	65	98	130	150	443
Revert to 2001 conveyance duty scale	106	110	118	123	457
<b>Total</b>	<b>529</b>	<b>598</b>	<b>667</b>	<b>721</b>	<b>2,515</b>

*NB: Costings estimated based on previous advice from DTF*



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CCI believes that the Western Australian Government should use the 2008-09 Budget to demonstrate its commitment to providing genuine taxation relief and reform to taxpayers, and therefore improve WA's taxation competitiveness.

### **Payroll Tax**

The increases in taxation revenues over the past six years have been across the board, but particularly from the major taxes – payroll tax, conveyance duty, land tax, motor vehicle duty and insurance duty.

Between 2000-01 and 2006-07, payroll tax revenue almost doubled, increasing by 92.9 per cent, from \$833 million in 2000-01, to \$1.6 billion in 2006-07. The growth in payroll tax reflects a strong business sector, although it is a tax that has a significant impact on the decisions made by business at the margin.

CCI has consistently argued that payroll tax represents a major cost of doing business. It is the tax that has the greatest impact on business, and is consistently regarded as the most undesirable tax from a business perspective. A recent pre-election survey undertaken by the Australian Chamber of Commerce and Industry<sup>1</sup>, found that 75 per cent of businesses surveyed said payroll tax was the tax most in need of reform. In particular, business was most concerned with the level of payroll tax and the pressure this tax is placing on struggling small and medium businesses. This is consistent with surveys that have been conducted by CCI in recent years.

In an increasingly globalised marketplace, WA businesses compete not only with other businesses in Western Australia, but also those in other jurisdictions and other nations. It is therefore essential that governments create a business environment that does not act as a disincentive to operating in Western Australia. Businesses operating in a global market are unable to pass on the increased costs of doing business from payroll tax without adversely impacting on the competitiveness of their products or services. This is a particularly important issue for many manufacturers in WA, which are increasingly competing with overseas manufacturers for market share in WA.

Payroll tax has become an increasing burden on small businesses, with many now caught in the payroll tax net as a consequence of rising wages. Originally

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<sup>1</sup> ACCI published its fourth release of the 2007 Pre-Election Survey on 8 October 2007. Detailed results are available from [www.acci.asn.au](http://www.acci.asn.au)



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established to exempt small business from payroll tax, the exemption threshold is protecting a smaller share of small businesses.

Based on latest earnings data, a business in Western Australia would only be able to employ 12 full-time workers on average wages of \$60,000 a year before being liable for payroll tax. This does not compare favourably with other states, with a business in Queensland for example only likely to start paying payroll tax after the 19<sup>th</sup> person is employed (based on average weekly earnings in that State).

While CCI has long argued for cuts to the payroll tax rate over increases in the exemption threshold, the extent of bracket creep suggests that this is also an important reform objective so that genuine small businesses continue to be exempt from payroll tax.

Based on average weekly earnings, the exemption threshold would need to increase considerably, to \$1.2 million, and be indexed thereafter to ensure that all small businesses are exempt from payroll tax.

### **Conveyance Duty**

The growth in conveyance duty revenues in recent years has been exceptionally strong, reflecting the booming property industry in WA since 2001. Conveyance duty revenues have increased from \$549 million in 2000-01 to over \$2.0 billion in 2006-07 – a total increase of over 270 per cent over this period. By comparison, house prices over the same period have increased by much less, with the ABS house price index for Perth increasing by 179 per cent and the Real Estate Institute of Western Australia (REIWA) median house price series increasing by 169 per cent. The extent to which conveyance duty revenues have grown relative to the growth in house prices highlights the degree to which bracket creep is significantly increasing the overall taxation burden on house purchases in WA.

Such is the extent of bracket creep that the median priced home is now just below the top threshold bracket. With Perth's median house price reaching \$460,000 in September 2007, the average house purchased in Perth will soon be paying the highest rate of stamp duty.

In 2000-01, less than 20 per cent of house purchases fell in the top two tax brackets with only three per cent of sales in the top tax bracket. In 2005-06, over 80 per cent of property transactions occurred in the top two tax brackets, while it is



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estimated around 30 per cent of all properties sold in 2006-07 fell in the top bracket<sup>2</sup>.

The tax paid as a proportion of the house value is also growing over time. The tax paid on the median priced house in mid-2001 was over \$4,600 and was around 2.8 per cent of the house price. Meanwhile, the median priced home today now attracts a duty amounting to \$18,700, representing over four per cent of the total price.

CCI believes there is a compelling case for conveyance duty thresholds to be increased, while reductions in the rates should also be a priority.

As a first step in a longer term strategy, CCI recommends the Government should reverse its previous scale increases back to 2001 rates and index thresholds to address any further bracket creep. Thereafter, the Government should undertake more significant adjustments to thresholds so that a level of parity is reached prior to the property boom in 2001.

Such conveyance duty reforms are also important insofar as it will help to address the home affordability crisis in WA. Addressing home affordability has become one of the most pressing issues facing WA and if not addressed as a matter of urgency, has the potential to significantly undermine the capacity to attract people to a State that has critical labour shortages.

## Taxation Competitiveness

Relative tax competitiveness across States and Territories and overseas is an important issue for the business sector. Tax competition between States is a fact of life in Australia's federation, and governments that ignore it do so at their cost.

While CCI has expressed a preference for tax competitiveness to be measured on a per capita basis in the past, the key point for the Government to note is the tax burden placed on Western Australian taxpayers has increased substantially (highlighted using any tax competitiveness measure) since it came to power. This increased tax burden is unnecessary for sustaining AAA credit rating financial balances, arguably is hindering economic decisions and needs to be rectified.

The key to maintaining a competitive taxation environment is to apply the principles of taxation to minimise the overall effect of the tax system on the

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<sup>2</sup> Figures for 2000-01 were obtained from the State Tax Review Interim Report, while later estimates were obtained from REIWA.



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business sector and therefore promote an economic environment that creates employment, income and wealth. The tax system is an important component of the economic environment for business and therefore government should seek to provide an overall taxation regime which is not a deterrent to business investment and operations.

For businesses whose investment is mobile, an uncompetitive tax system may be a determining factor for a business owner considering where to set up their operations.

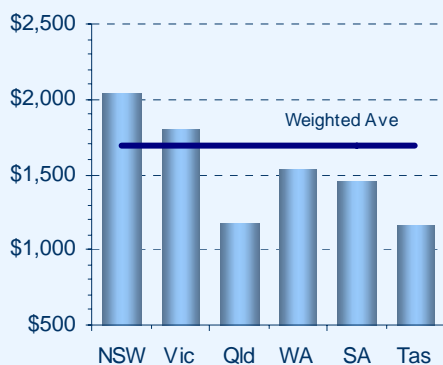
While tax competition can encourage governments to match best practice in other jurisdictions and to strive to keep the overall tax burden at a minimum, CCI believes that governments should avoid contests in which States compete against each other to attract particular projects with targeted tax incentives and concessions. Such an approach is self-defeating, drawing labour and resources away from existing and prospective industries and reducing their comparative advantage.

It also needs to be recognised that State Governments have very limited capacity through their fiscal measures to affect the overall economic conditions in their jurisdictions in a counter-cyclical manner.

In that regard, the focus of tax competition should be on ensuring the overall revenue burden is as low as possible and that revenue is raised in the most efficient and least distorting manner.

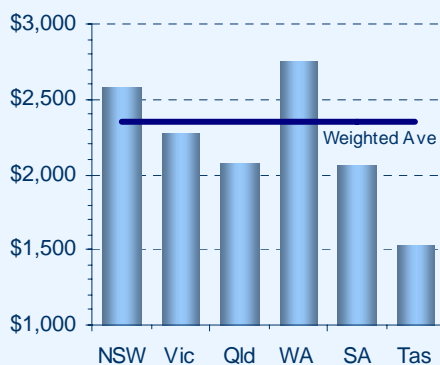
Using the State Government's original target (no change in the per capita tax ranking), Western Australia has gone from being the third highest taxing State and well below the all-states average in 2000-01, to become the highest taxing State (overtaking Victoria in 2003-04 and NSW in 2005-06) and well above the all-States average in 2006-07 (Charts 6 & 7).

**Chart 6**  
**Tax Competitiveness**  
**Tax Revenue Per Capita 2000-01**



Source: State Budget Papers

**Chart 7**  
**Tax Competitiveness**  
**Tax Revenue Per Capita 2006-07**



Source: State Budget Papers



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State taxes on a per capita basis have increased strongly – from an average of \$1,529 per person in 2000-01 up to \$2,747 per person in 2006-07 – representing an 80 per cent increase over the period.

Tax as a percentage of GSP has also increased strongly since the Western Australian Government came to power. In 2000-01, tax as a percentage of GSP was 3.86 per cent and has increased to an estimated 4.18 per cent in 2006-07 – an increase of 9.4 per cent. By comparison, the weighted average of the other States has remained relatively unchanged, going from 4.90 per cent in 2000-01 down to an estimated 4.88 per cent in 2006-07 (Chart 8).

The tax to GSP ratio also masks a period in which tax revenue has almost doubled (increasing by 98 per cent) over the past six years, while the WA economy has expanded by 81 per cent in nominal terms and 55 per cent in real terms.

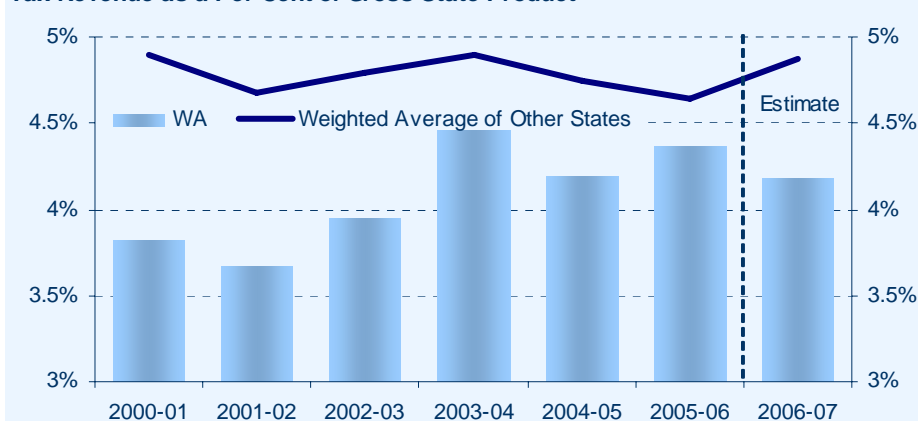
The Commonwealth Grants Commission measures of taxation effort also show an increase in the taxation burden. Using the Commonwealth Grants Commission comparative measures of taxation effort, WA has the greatest revenue raising ability. Over the period 2001-02 to 2005-06, if states had applied average tax rates, Western Australia would have raised the most revenue per capita of \$2,706. The Grants Commission also found that Western Australia's actual revenue was even higher, equivalent to \$2,929 per capita and around 24 per cent higher than the next ranked State, NSW, and 32 per cent higher than the national average of \$2,209 per person.

The recent increase in tax revenue enjoyed by the Government in 2006-07, has undoubtedly moved WA further away from the all-States' average. To bring the State's tax competitiveness (in per capita terms) to a position more favourable than the States' average, a reduction in taxes of \$1 billion would be required.

It follows that Western Australia does not rank well in relation to each head of tax.

**Chart 8**

**Tax Revenue as a Per Cent of Gross State Product**



Source: State Budget Papers



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Payroll tax, for example has surged in recent years. In 2006-07, Western Australia was the second highest taxing State in relation to payroll tax and the highest taxing State in relation to conveyance duty, motor vehicle taxes (stamp duty on motor vehicle licences and motor vehicle registration fees) and insurance duty. It was also the third highest taxing State in relation to land tax (although land tax per capita has fallen to under the weighted average of the States from 2005-06 and is now well under the weighted average of the State in 2006-07).



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# Government Spending

## Need for Reform

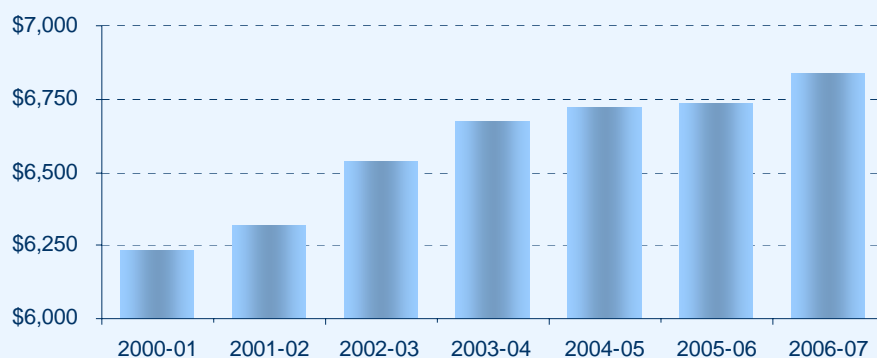
The broader issue of how the Government's revenue is spent, and in particular the level of spend, is what ultimately provides the capacity for tax reform. In the long run, the level of the tax burden is determined almost entirely by the level of government expenditure. Governments should therefore strive to be fiscally responsible and ensure that expenditure growth is kept in check to avoid placing an increasing burden on taxpayers.

The Government's adoption of the fiscal target to cap the rate of growth in outlays to the level necessary to match price changes and population growth was welcome. Meeting this target is crucial to the Government's other key fiscal targets – maintaining tax competitiveness, capping debt, keeping the AAA credit rating and delivering budget surpluses. However, the commitment to such a target has been hollow, given that the Government has failed to keep spending under this target in every year since coming to office (Chart 9).

**Chart 9**

### Real Per Capita Operating Expenses

2006-07 Dollars, 2000-01 to 2006-07



Source: State Budget Papers, CCI Estimates

The excessive growth in recurrent government expenses has been a long term problem in Western Australia and CCI has been disappointed at the failure of successive WA governments to meet the stringent expenditure targets they impose on themselves.

In 2006-07, general government spending reached \$15.1 billion. Of this amount, 40.8 per cent was spent on salaries, while current transfers accounted for 22.4 per cent of government outlays. Other expenditure requirements were relatively small by comparison (see Table 3).



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**Table 3**  
**General Government Expenses**

	2000-01		2006-07		Total %
	\$m	% Total	\$m	% Total	Increase
Gross Operating Expenses					
Salaries	3,953	37.9	6,182	40.8	56.4
Depreciation and amortisation	452	4.3	672	4.4	48.7
Superannuation	359	3.4	602	4.0	67.8
Services and Contracts	-	-	1,663	11.0	-
Other	2,810	26.9	1,822	12.0	-35.2
Total Gross Operating Expenses	7,574	72.6	10,941	72.2	44.5
Nominal Superannuation Interest	304	2.9	289	1.9	-5.0
Current Transfers	2,049	19.6	3,392	22.4	65.6
Capital Transfers	263	2.5	413	2.7	57.0
Other	239	2.3	112	0.7	-53.2
Total	10,429	100.0	15,147	100.0	45.2

Source: State Budget Papers

Compared to the 2000-01 budget outcome, general government expenditure has increased by 45.2 per cent or \$4.7 billion over the past six years. Of this amount, its day-to-day operational costs or gross operating expenses have grown by a similarly strong rate, with total gross operating expenses increasing by 44.5 per cent or \$3.4 billion since coming to power.

The increase in expenses growth has been largely due to increasing salaries – both in absolute terms and as a percentage of the total budget.

Since coming to power in 2001, salaries have increased by 56.4 per cent in six years, amounting to \$6.2 billion in 2006-07. Worryingly, the percentage of the State budget allocated to salaries has also increased – from 37.9 per cent in 2000-01 to 40.8 per cent in 2006-07. To put this into perspective, if the salaries budget increased in line with other expenses over this period (i.e. stayed at the same proportion of the total budget), salary costs would be over \$728 million lower in 2006-07.

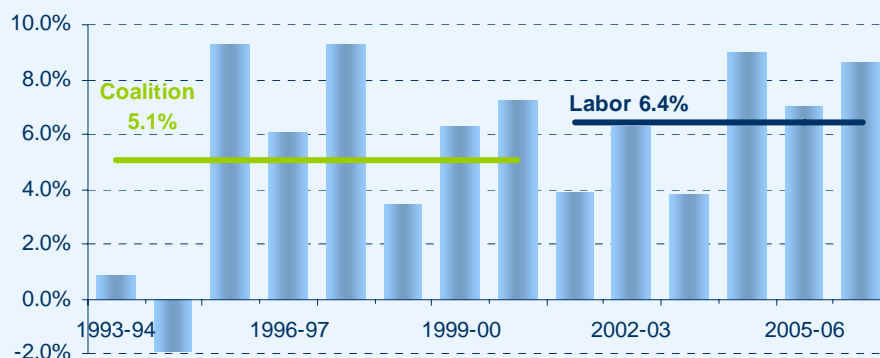
Spending discipline has slipped over the current 4-year term. Unless spending control measures are adhered to, it will threaten the sustainability of public finances over the medium term. This has been the experience in Western Australia in recent years, especially for governments in their second term of office.

The lack of spending discipline is highlighted by the fact that between the Government's first budget in 2001 and 2003-04, expenditure had increased by an average 4.7 per cent a year, while in the three years since, general government expenditure has averaged growth of 8.3 per cent a year. As a result, in the six years



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**Chart 10**  
**Growth in General Government Operating Expenditure**  
1993-94 to 2006-07



Source: State Budget Papers

this Government has been in power, expenses have grown by an average 6.4 per cent which is above the previous Government's average of 5.1 per cent (Chart 10).

Worryingly, trend growth in expenses is on the rise. In 2004-05, expenses growth reached nine per cent, and this was then followed by a further seven per cent increase in 2005-06, before surging another 8.6 per cent in 2006-07. Based on the estimates published in the 2007-08 Budget, general government expenses are expected to rise by a further 6.6 per cent in 2007-08 - although this is likely to be revised up, as has been the case in each year previous.

Overall, the size of recurrent government expenses is 55 per cent higher than it was just six years ago. If a similar growth rate were to continue over the outlook period, recurrent government expenses will increase by a further \$3.3 billion by 2010-11. By comparison, if expenses are held to the forecasts published in the 2007-08 Budget (and therefore consistent with a real per capita growth rate), they would be only \$1.5 billion higher. The "saving" from this expenditure control would amount to \$1.8 billion, and would provide the Government with the flexibility to abolish a number of the most inefficient and distortionary taxes, and even have the capacity to abolish payroll tax entirely.

Clearly, continuing growth in general government expenses of this magnitude will place substantial burden on future tax payers and moreover could have significant budgetary implications for the State if revenue growth was to ease.

It is for this reason that a genuine and renewed commitment to reform in the public sector is necessary - which will help create a leaner and more efficient sector and one which does not place an ever increasing burden on taxpayers.



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## Key Initiatives/Reforms

CCI has identified a number of key initiatives which it believes form the foundation of prudent fiscal management. At the broadest level, CCI supports a spending growth target which aims to ensure that growth in general government spending does not exceed the rate necessary to match growth in prices and population. Other key objectives, such as maintaining tax competitiveness, would be much easier to attain if then expenditure targets were achieved. In this regard, absolute priority needs to be given to implementing reform in the health sector that achieves the outcomes identified in the Reid Committee report, and which contains the growth in health expense to levels consistent with the target for total expenses growth.

Labour costs are the largest component of the general government sector's operating costs, and containing wage cost growth is essential if overall expenditure growth is to be contained. Productivity improvement is also essential to delivering improved services without ballooning costs. Specific measures to contain unit labour costs should include:

- setting aggregate wage growth targets for departments and agencies;
- instituting an efficiency dividend on output costs of at least one per cent a year, to encourage ongoing productivity improvements; and
- reintroducing individual bargaining to retain and motivate high performing staff. A uniform pay structure does not encourage productivity gains.

These targets are essential to helping the Government ensure that overall spending is contained. However, given the magnitude of growth in government spending in recent years, particularly in relation to public service salaries, it is important that reforms are initiated which aim to increase productivity across the public service. This is especially important where it is clear that increased spending has not brought with it a commensurate increase in the provision of public services.

Recent trends also support a new Machinery of Government review in order to deliver broader public service reforms such as the reduction in the number of departments and agencies.

CCI welcomed the Government's initiative to conduct a program of functional reviews announced in the 2006-07 Budget. The agencies which were to be subject to Functional Reviews were: Premier and Cabinet, Industry and Resources, Indigenous Affairs, Education and Training, Planning and Infrastructure, Housing and Works, Community Development and Sports Centre Trust.



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Of the agencies identified, it is understood that the Sports Centre Trust, Community Development, Indigenous Affairs and Industry and Resources have had their reviews completed. However there would appear to have been no material outcomes from these reviews. Certainly there has been no information provided on decisions taken from the reviews (apart from the Government's announcement in the most recent budget in relation to the creation of a new Child Protection agency resulting from the Community Development's review). Meanwhile, some reviews have not even commenced, specifically Housing and Works, Premier and Cabinet, and Planning and Infrastructure.

It is important the Government remain committed to the functional review process and ensure that it does not lose direction. Such a reform program requires the continued emphasis on functional reviews of key agencies to ensure that resources are directed to their most valuable use and that increased efficiencies are achieved in program delivery. These reviews must be conducted by assessors independent from the agencies being reviewed.

## **Expenditure Priorities**

### **Health expenditure - Preventative Care**

The rate of potentially avoidable hospitalisations for chronic health conditions in Western Australia is almost double the national average and has grown significantly in recent years. Many of these admissions may have been avoided through greater investment in preventive health care programs or through timely and appropriate management in the community.

Expenditure on prevention and health promotion services as a proportion of total recurrent health expenditure has fallen progressively since 2003-04. CCI believes that expenditure on preventive health care must be given higher priority than is currently the case. Significantly greater investment is urgently needed to ensure that overall health expenditure can be sustained in the longer term.

### **Funding of disability services**

For the third year in a row, the WA Government has failed to apply the agreed formula for indexation of funding to the disability services sector. Based on the information supplied in the 2007-08 Budget, the planned indexation rate will be 0.7 percentage points lower than that which would apply using the indexation formula, and when combined with the shortfall in previous years implies a cumulative shortfall of 2.7 percentage points.

Inadequate indexation of funding is seen to be a major contributing factor to the inability of the sector to maintain an adequate workforce. As a result of carer shortages, services to people with disabilities are being compromised and critical incidents are occurring. In order to ensure that disability services can be



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maintained at existing levels, indexation of funding must realistically reflect growth in costs of service delivery.

CCI acknowledges the Department of Premier and Cabinet is currently undertaking a review of the Non-Government Human Services Sector indexation policy, and it is hoped that the outcome of this review will ensure the sector will receive adequate funding commensurate with cost increases.



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# Infrastructure Development

## Priorities

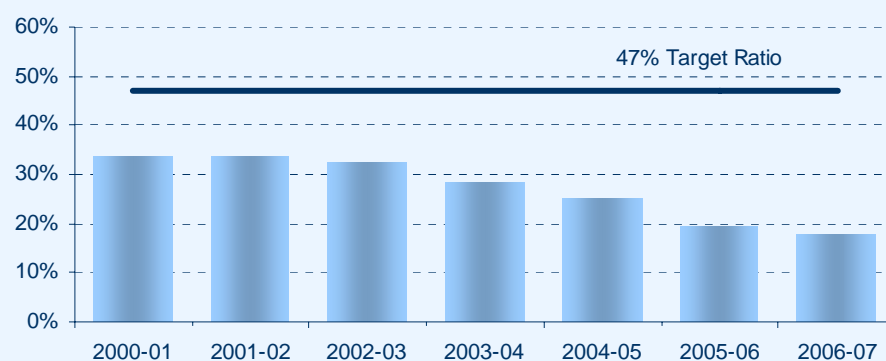
High quality economic infrastructure, appropriately-placed suitable land and efficient planning processes are key enablers for industry growth and the attraction of business investment to Western Australia, particularly for industries where the investment location is flexible. Access to appropriate infrastructure is also fundamental to ensuring that the whole community can contribute to, and share in, the State's wealth and quality of life.

The WA Government plays a vital role in the facilitation and development of vital social and economic infrastructure, and it is important that such infrastructure is provided in a fiscally responsible manner. It is therefore pleasing that the WA Government remains committed to maintaining its AAA-credit rating by keeping net debt as a percentage of revenue below 47 per cent. However, recent trends highlight an increased capacity for the WA Government to deliver key social and economic infrastructure without threatening this target.

In this regard, the WA Government has reduced its net debt to revenue ratio substantially since announcing the financial targets in its maiden 2001-02 Budget. The WA Government managed to achieve a record low 17.9 per cent net debt to revenue ratio in 2006-07, which is below the 33.6 per cent ratio when it came to power (Chart 11) and the projections at that time of a further significant deterioration in those levels. This highlights the financial capacity of the WA Government to build modestly its debt balances in order fund infrastructure development without compromising its fiscal prudence.

CCI believes that the most appropriate means by which infrastructure priorities should be identified is through the State Infrastructure Strategy, which will provide

**Chart 11**  
**Net Debt to Revenue Ratio**



Source: State Budget Papers



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stakeholders with the opportunity to help decide the appropriate prioritisation of infrastructure projects for the State. It is also important the Government increases its transparency in relation to its Capital Works and infrastructure programs. Greater transparency in its infrastructure programs will provide the private sector with a greater degree of certainty as to the likely future infrastructure projects that will be undertaken in the State, also improving the business sector's decision-making processes.

In the absence of this process being finalised, CCI has compiled a list of ten key economic and social infrastructure priorities for consideration as part of the 2008-09 Budget.

### **Broadband in WA**

The availability of broadband in Western Australia's metropolitan and regional areas is vital for State development and industry's participation in the knowledge economy.

It is important for the Government to progress initiatives such as the State Broadband Network, particularly in areas north of Perth. Competition must be introduced into these networks to not only bring with it improved service but lower prices. CCI understands that a large number of small, medium and large enterprises in regional, rural and remote areas can not afford to pay the exorbitant cost of establishing an appropriate broadband connection.

Many WA businesses are unable to exploit the new opportunities created from advanced broadband technology that delivers speeds in excess of 10 mega bits per second. These technologies enable the efficient and effective use of Internet applications that require real time interaction. Therefore video conferencing becomes efficient, off-site automation is viable, education and health services are transformed and regional communities become less isolated, among other benefits.

By improving industry's access to broadband, the State will facilitate innovation and improve the interactivity of industry to the national and international economy.

### **High Wide Load Corridor 2**

CCI has long supported the need, and actively campaigned for the establishment of a high wide load corridor network to enhance the competitiveness of local heavy fabricators. Our strong support for such a network reflects the growing trend in the heavy fabrication industry to reduce the level of on-site fabrication by building larger modules in workshops and transporting these prefabricated modules to the project site for assembly.



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Industry is already receiving a significant benefit from the existing high wide load corridor which extends from the Australian Marine Complex Common User Facility at Hendersopn to the Kwinana Industrial Area and on to Singleton. It is estimated that the direct benefits to the State's economy of the Government's \$2 million expenditure on creating the first high wide load corridor is in excess of \$9 million per annum or in net present value terms, a benefit in excess of \$100 million.

The High Wide Load Corridor 2 links the Kewdale/Welshpool industrial area to the Australian Marine Complex Common User Facility and the Kwinana Industrial Area. The go-ahead for large projects such as Gorgon and Pluto make this infrastructure critical for local industry to compete. In order to complete this corridor, it is estimated that an additional funding requirement of \$10 million is required.

### **Upgrade of Perth Airport**

CCI believes that the WA Government should also place as a priority the necessary infrastructure needed to support the expansion and improvement of Perth Airport, including the road transport links in and around the airport. CCI, through its consultation with the WA Airports Corporation, has found a number of roads require either immediate extension or improvement or work over the outlook period.

The highest priority work requiring immediate attention includes an upgrade of the Tonkin Highway/Kewdale Road/Horrie Miller Drive intersection, an upgrade and extension to the airport at the Tonkin Highway/Leach Highway intersection, and upgrade of the Great Eastern Highway/Fauntleroy Avenue intersection.

Other work that will be required to be completed in the next 3-5 years includes the upgrade to six lanes of the Great Eastern Highway (Graham Farmer Freeway to Fauntleroy Avenue 5-6km) and Tonkin Highway (Collier Road to Roe Highway). There is also an additional upgrade of the left lanes of Tonkin Highway and Boud Avenue that is necessary.

### **A New Multi-Purpose Outdoor Stadium**

There is a clear business case to developing a new multi-purpose outdoor stadium in Perth, as highlighted by the Stadia Taskforce report which was released in May 2007.

CCI believes that the WA Government should take leadership on this issue by quickly resolving governance issues and proceeding with the announcement of the location, and the development timeframe as part of the 2008-09 Budget.



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The benefits of a world-class stadium to the community are widespread. A world-class stadium will not only add to the creation of a vibrant city, but allow the community to experience major sporting events and state of the art facilities.

### **Western Foreshore Development**

The Mounts Bay foreshore redevelopment is planned to create a vibrant people-oriented precinct for tourists and the local community and will enhance the tourism appeal of Perth. Commitment to such a development will underpin future business development and investment attraction on and around the Mounts Bay foreshore.

CCI has long supported the foreshore redevelopment and has encouraged Government to deliver a vibrant, mixed use precinct and provide investment opportunities for accommodation providers. Such a project is long overdue for Perth, and CCI believes that the WA Government must articulate its strategy for development as part of the 2008-09 Budget.

### **Northbridge Link**

The proposed Northbridge Link is a significant redevelopment project for Perth which will remove the great divide between the city's commercial and business precinct and Northbridge's lively cultural, restaurant and nightlife hub. The project will sink a portion of the railway to eliminate the barrier between Perth's CBD and Northbridge, and will facilitate the redevelopment of the Wellington Street bus station.

The Northbridge link will create vitality in the city and will become a dynamic new urban precinct where shops, offices, apartments, accommodation, restaurants, services, entertainment and high quality transport come together. CCI considers this proposal vital for the future development and vibrancy of Perth.

### **Indian Ocean Drive**

The Government should commit to the completion of the 194 kilometre coastal road between Lancelin and Cervantes. The completion of this road will enable the development of the Central Coast for tourism by improving access and decreasing travel times from Perth. It is expected that a coastal road would open up a range of investment opportunities at Lancelin, Cervantes, Jurien Bay and other coastal towns through to Geraldton.

### **Bunbury Outer Ring Road**

Now that the Perth Bunbury-Highway is under construction it is important that the Government bring forward the development of the Bunbury Outer Ring Road together with the Port Access Road and a flyover at the Eelup Roundabout to ensure that increased traffic coming to the south-west does not bottle neck at



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Bunbury where the Eelup Roundabout already has a high accident rate. This infrastructure is seen as a priority to provide access to proposed industrial areas to the east and south east of Bunbury and linkages to the Perth – Bunbury Highway, South Western Highway, Bussell Highway and Bunbury Port. Depending on opportunities that may arise for south west exports the WA Government may need to look to invest in the Bunbury Port infrastructure.

### **Fremantle Inner Harbour Deepening**

The Government should commit to deepen the Fremantle Inner Harbour to adequately accommodate the larger sized container vessels now entering the Australian ports for trade. Deepening this harbour will improve trade and allow cargos to be efficiently handled into the future. In a similar way the Victorian Government recently approved the deepening of the port in Melbourne.

### **Arts and Culture**

Arts and culture are an important component in the development of Perth as a vibrant place to live, work and recreate. The development of the new performing arts venue in Northbridge and the Perth Arena are both positive examples of the State Government's contribution to arts and culture. However, CCI believes that the WA Government must better articulate a clear vision for the development of arts and culture in Perth and make a commitment to fund this vision appropriate.

Such a vision should consider creating an arts precinct in Perth, such as the proposed precinct around the Perth Concert Hall which would include new homes for Perth's ballet, opera and the WA Symphony Orchestra. The other key cultural project that needs to be considered as part of this overall vision is the development of a new museum.

### **State Infrastructure Strategy**

There will always be numerous competing infrastructure requirements that must be prioritised and funded within a sound fiscal framework. It is for this reason that CCI has long supported the development of a medium term infrastructure plan, to provide a greater degree of certainty as to the likely future infrastructure projects that will be undertaken in the State and assist in de-politicising the prioritisation process.

CCI welcomed the 2005 announcement that the Western Australian Government would be developing a State Infrastructure Strategy, and supports the proposed framework for assessing WA's future infrastructure needs, which was outlined in the Green Paper.



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With Western Australia in the midst of an investment boom that is showing little signs of abating over the coming years, it is crucial that the State's infrastructure needs and infrastructure policy more generally be addressed as a matter of priority.

While CCI is broadly supportive of the Green Paper, which articulates the broad framework by which future infrastructure needs in Western Australia will be assessed, it has however become concerned over the time it is taking to implement this strategy.

The emergence of increasingly critical social and economic infrastructure needs, and the increased uncertainty over the WA Government's priorities, highlights the need to release the final report as a matter of priority.

Importantly, CCI believes that a key initiative will be to form an independent group of stakeholders to assist the Government in the prioritisation of infrastructure projects in WA. Such a group will need to be of a size and composition that will enhance the Government's decision-making process.



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