



Knowledge Influence Support

CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

KNOWLEDGE



SUPPORT

2012-13 Pre-budget Submission to the WA Government

CCI Advocacy – December 2011

www.cciwa.com 1300 4 CCIWA

Table of Contents

Economic Context	4
CCI's Priorities for 2012-13 Budget.....	6
2012-13 Budget Context.....	8
Key Issues for the 2012-13 Budget	10
Addressing the Cost of Doing Business	10
<i>Tax Reform</i>	<i>10</i>
<i>Addressing Labour Shortages</i>	<i>14</i>
<i>Reforming Industrial Relations.....</i>	<i>24</i>
<i>Cutting Regulation and Red Tape.....</i>	<i>26</i>
<i>Approvals</i>	<i>28</i>
Preparing the State for future challenges	30
<i>Strategic Vision and Direction.....</i>	<i>30</i>
<i>Ensuring Government resources are being used efficiently and effectively</i>	<i>31</i>
<i>Local Government Reform.....</i>	<i>33</i>
<i>Infrastructure Development.....</i>	<i>34</i>
<i>Local Content.....</i>	<i>39</i>
<i>Regional Development.....</i>	<i>40</i>
<i>Energy.....</i>	<i>40</i>
<i>Health and Community Services.....</i>	<i>43</i>
<i>Health.....</i>	<i>45</i>
Endnotes	47



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 6,500 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 represents organisations in the not-for-profit and government sectors. About 80 per cent of members are small businesses, and members are located in all geographical regions of WA.



Economic Context

The recovery in the Western Australian economy is underway, and the State is gearing up for an extended period of strong growth, on the back of the State's strong ties with the fastest growing economies in the world across developing Asia.

While this next phase of economic growth will deliver significant opportunities for the State, not all businesses are currently sharing equally in the resurgence in the local economy. The patchiness that exists by industry remains a key feature of the WA economy, with many businesses still facing difficult conditions.

The extent of the challenges being faced by many WA businesses was reflected in the December quarter *Commonwealth Bank-CCI Survey of Business Expectations*. The results showed that trading conditions remain weak, with just 19 per cent of businesses reporting that conditions were 'good', compared to 25 per cent that felt conditions were 'poor'. Small businesses continue to report a particularly difficult environment, with one third indicating their trading conditions were poor.

At the same time, businesses continued to be squeezed by the rising costs of staff and materials, with around 45 per cent of all respondents reporting that their wages bill had continued to climb over the quarter, and over half reported higher input costs.

The short term economic outlook has also become more uncertain in recent times, amidst the mounting uncertainty surrounding the European sovereign debt crisis. Should this crisis escalate into a broader global financial crisis, the WA economy will not be immune from its impact.

With many businesses still doing it tough and risks to the global economy mounting, the challenge for the WA Government will be to use the 2012-13 Budget to address the short term difficulties being faced by many businesses. At the same time, the Government also needs to focus on delivering an ambitious reform agenda that will help the State make the most of the opportunities that lie ahead.

While the 2012-13 Budget will be the last before the election, the Government still has the responsibility to deliver on its promised reform agenda, which has stalled in recent times.

The Government should use the 2012-13 Budget to deliver a reform agenda that can be implemented immediately to ease the cost of doing



business in the State, to help those businesses outside of the resources sector to navigate through the current conditions.

The 2012-13 Budget should also implement meaningful and lasting reform that will prepare the State for the longer term, and ensure that WA makes the most of the opportunities that lie ahead. With almost \$141 billion worth of projects in the pipeline, this next wave of growth has the potential to re-shape the State and delivers lasting benefits to the local community. It is important that the WA Government builds on these opportunities, by setting out strategies to improve the productive capacity of the economy and maintain our competitiveness.

This is particularly important given that WA is already a high cost jurisdiction, and is heading into a phase of very strong growth with limited spare capacity available.

This long term agenda will be critical to ensure that the local economy continues to grow strongly for many years to come, and that the benefits of this growth are shared across the State.



CCI's Priorities for 2012-13 Budget

The Pre-Budget Submission sets out the important issues for the WA business community. The priority recommendations that CCI believes the WA Government should action in the 2012-13 Budget are set out below.

1. Cut the payroll tax rate by at least 0.5 per cent, and increase the payroll tax exemption threshold to \$1.4 million, so that genuine small businesses are on average exempt from payroll tax. The payroll tax exemption threshold should also be indexed to address bracket creep.
2. Continue to work with industry to implement the remaining recommendations of the *Skilling WA* document, in particular developing initiatives to attract and retain under-represented groups into the workforce, such as targeted training funding for youth unemployment and programs that will better match jobs for the unemployed and under-participating groups to give them the skills they need for employment.
3. Amend IR legislation to ensure that if a public holiday falls on a weekend, businesses are not forced to pay penalties to employees for an additional day. An amendment to section 49I of the Industrial Relations Act is needed to ensure the OSH right of entry in WA is consistent with the generic right of entry under the Fair Work Act.
4. Streamline the approvals process by establishing a single decision-making authority, and rolling-out the online Environmental Assessment and Regulatory System (EARS) across all approvals agencies as recommended by the *Review of Approval Processes in Western Australia*.
5. Develop a strategic direction for WA, which brings together plans for the State's energy, water, economic and social infrastructure, and workforce needs, as well as protecting the State's finances. Such a plan should be tied to a long term vision for the State, and remain flexible to changing priorities and economic conditions.
6. Reduce growth in recurrent Government spending, by implementing the findings of the Economic Audit Committee and broader public sector reform. Amending the *Public Sector Management Act 1974* to allow for involuntary separations and lift the freeze on attraction and retention benefits is a priority area for reform. The Government also needs to look at ways to improve agency performance and accountability. In this regard, agencies and CEOs/Directors General



must have a meaningful and measurable set of performance indicators to ensure they deliver outcomes.

7. Determine the appropriate local Local Government boundaries for metropolitan and regional WA, to ensure there is an appropriate rate base and legislate for the amalgamation of particular local governments, should the relevant local governments refuse to do so voluntarily.
8. Continue the path towards cost reflective pricing in electricity tariffs, as outlined in the 2011-12 Budget. Urgently deliver an ambitious Strategic Energy Initiative that sets down the Government's immediate and ongoing commitment to a secure, reliable and competitive energy market in WA. Sufficient and appropriate funding will need to be allocated to the Office of Energy to deliver this agenda.
9. Develop a State Preventative Health Plan, to encompass all aspects of preventative health, from birth onwards. Such a plan should be separately administered within the Department of Premier and Cabinet, and focus on education, marketing, and encouraging employers to establish preventative health programs.



2012-13 Budget Context

Recently released figures show that the State's financial position remains strong.

The 2010-11 Annual Report on State Finances showed that the State recorded a strong surplus of \$1.6 billion during the year, up \$820 million from the estimates contained in the May budget. This strong budget position is expected to continue across the forward estimates, with the latest figures in the 2011-12 Budget predicting a net operating surplus of \$442 million in 2011-12, rising to \$768 million in 2012-13 and to \$787 million in 2013-14, before falling back to \$471 million in 2014-15.

The strong surpluses projected across the forward estimates reflect positive economic conditions, and can only be sustained by addressing underlying structural issues with public sector finances.

An important part of protecting the State's budget position is to ensure the Government's own financial targets are met. The Government currently reports on a range of indicators of the State's financial health. Its targets include containing expenditure growth, maintaining tax competitiveness, capping debt, retaining the AAA credit rating, and delivering budget surpluses.

These targets are important in that they ensure open and accountable fiscal management, and prudent control over the level and growth of government expenditures and revenues. However, there is no mechanism to ensure they are actually being met. In fact, the 2011-12 Budget shows that the WA Government will not meet two of the five financial targets during the current financial year.

In particular, a priority for the 2012-13 Budget should be to ensure that growth in outlays is contained to the level necessary to match price changes and population growth. This spending growth target has never been met by successive Governments, and is critical to ensuring the sustainability of the State's financial position.

It is pleasing that the Government has contained growth in spending during 2010-11 to 5.2 per cent, the lowest rate of growth since 2003-04. CCI recognises that the Government has introduced a number of measures to address spending growth such as the efficiency dividend on Government Trading Enterprises (GTEs), 400 voluntary redundancies, the targeted



review of low priority spending programs, and the decision to scrap the Office of Shared Services.

While these programs have contributed to the slower rates of spending growth, the bulk of the improvement has been driven by deferred spending programs. In this regard, there is still a pressing need to ensure that spending growth remains in check. CCI is concerned that these deferred programs will see spending growth spike in the years ahead, particularly given that it is already forecast to increase by 7.9 per cent in 2011-12.

Improving the State's tax competitiveness is also a major issue for the 2012-13 Budget. The Government is unlikely to meet one component of its tax competitiveness target in 2011-12, with WA still the highest taxing state in the nation on a per capita basis.

While it is recognised that the projected decline in GST revenue will be a constraint on public sector finances, the Government should commit to meeting this target across all tax competitiveness measures.

While meeting the self-imposed fiscal targets is an important objective, the once in a lifetime opportunity ahead of WA in the coming years means that consideration should be given in the 2012-13 Budget to ways to ensure the State makes the most of this next phase of growth.

The Government is on track to maintain the state's AAA credit rating over the forward estimates. While total public sector net debt is expected to rise in line with the record capital works program, it still remains affordable.

With the ratio of net financial liabilities to revenue projected to peak at 71 per cent (well below the 90 per cent "trigger ratio" set by Standard and Poors), the Government has considerable room to move (\$4.8 billion) before the AAA credit rating is threatened. In this regard, the Government has scope to take on a more ambitious infrastructure program.

It is vital that any increase in borrowings is put towards projects that will deliver substantial benefits to the State over the longer term. This reinforces the need for a State Infrastructure Plan, which will ensure all projects are subjected to a stringent cost benefit and opportunity cost analysis (see Infrastructure section).



Key Issues for the 2012-13 Budget

Addressing the Cost of Doing Business

Tax Reform

While tax is a necessary part of a modern economy to fund the provision of essential public services, it also represents a significant cost of doing business, and in turn impacts on investment and employment decisions.

In recent times, the Government's ability to deliver permanent and meaningful tax reform has improved. While it is recognised that the State's budget position will face pressure from the projected decline in GST revenue, CCI believes that the Government should demonstrate its commitment to provide genuine taxation relief and reform, which will promote growth and investment in the State.

Tax relief will also be an important way to assist local businesses struggling in the face of higher costs and weaker trading conditions, as well as ensuring that the tax system does not act as a disincentive to further investment in the State's economy.

The tax burden in Western Australia has been increasing in recent years compared to other jurisdictions. For example, in 2001 WA was the third highest taxing state in the nation at \$1,529 per person. This figure was below the all-state average of \$1,700. Since then our taxation per capita has risen by 87 per cent to \$2,861, to become the highest in the nation, and well above the national average of \$2,534.

The increase in the tax burden in WA predominantly reflects a number of tax thresholds that have not been indexed over time. Rising prices (on property, labour and other goods or services) on the back of strong growth in the local economy have seen WA's taxation revenue on a per capita basis increase as taxpayers are pushed into higher thresholds.

Despite the ongoing issues with Commonwealth-State financial arrangements, State Governments do have the capacity to reform their tax systems. The priority areas for reform in the 2012-13 Budget are outlined below.

Payroll Tax

The abolition of payroll tax remains a long term priority. Businesses of all sizes and sectors have a strong collective desire to reform payroll tax



because it discourages the growth of their enterprises, and is viewed as a penalty for increasing salaries and employing people.

Payroll tax is consistently identified as a major burden on business. In a recent survey conducted by CCI in conjunction with *WA Business News*, just under half of all respondents identified payroll tax as a major cost burden on their operations. Anecdotal feedback from the survey also showed that many respondents had cut employment in order to reduce their payroll tax bill or were reluctant to hire more staff as a result.

The payroll tax burden on WA businesses is particularly high. Payroll tax raised \$2.6 billion for the State Government in 2010-11, up 14 per cent on the previous year, and 192 per cent higher than in 2001-02. By contrast, the WA economy (in nominal terms) grew by 167 per cent over the same period, demonstrating the disproportionate level of taxation being applied to WA business.

WA is now the highest payroll taxing state in the nation in per capita terms. The payroll tax rate in WA is the second highest of all states at 5.5 per cent behind Tasmania (6.1 per cent). Other states have also been active in providing payroll tax cuts in recent years, despite significantly weaker economic and budget positions. For example, New South Wales has progressively cut its payroll tax rate from six per cent to 5.45 per cent while in Victoria, the rate was progressively reduced from 5.75 per cent to 4.9 per cent.

Moreover, the strong growth in employment and wages in recent years has also meant that many small businesses have now been caught in the payroll tax net. This is not necessarily because they are employing more people but because they have to pay existing staff more, due to increased competition for scarce labour. This underscores the fact that the exemption threshold has been unchanged since 2003 and is not reflective of the State's strong wages growth in recent years.

Based on latest earnings data, a business in WA would only be able to employ nine full time workers on average wages of just over \$75,000 a year before being liable for payroll tax. By contrast, when the exemption threshold was last adjusted in 2003, a business could employ 15 staff before it had to start paying payroll tax (based on average weekly earnings).

Significant improvements should be made to the current payroll tax arrangements in the short term. In particular, the Government should use the 2012-13 Budget to:



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

- **cut the payroll tax rate by at least 0.5 per cent;**
- **increase the exemption threshold to \$1.45 million, so that genuine small businesses are on average exempt from payroll tax; and**
- **index the exemption threshold to address bracket creep as a result of rising wages.**

Land Tax

While the WA Government did introduce measures in 2009-10 to reduce excessive volatility in land tax bills, further reform is needed given that this tax remains a major burden on local businesses.

Around 20 per cent of respondents to the *CCI-WA Business News (CCI-WABN) Cost of Doing Business Survey* identified land tax as a major cost burden on their business. The tax raised \$521 million for the State Government in 2010-11 and 131 per cent higher over the last decade. Concerns also exist about the assessment process for land tax, with some businesses in recent years facing land tax bills 10 times higher than the previous year, due to the growth in property prices between 2001 and 2007.

The WA Government also collects an additional 0.15 per cent on the unimproved value of land which is liable for land tax and located within the metropolitan region, under the Metropolitan Region Improvement Tax (MRIT). WA is the only State to apply such an additional tax on land, which added an estimated \$77 million in taxation revenue over 2010-11.

To reduce the land tax burden on business and minimise bracket creep, the Government should use the 2012-13 Budget to:

- **flatten the land tax thresholds and incorporate the Metropolitan Regional Improvement Tax (MRIT) into the land tax base.**
- **review the land tax assessment process to ensure that the land tax bill does not rise ahead of the rate of increase in the value of the property. One option could be the application of a five year moving average, which would average out the land valuations of the most recent five years resulting in less volatile tax bills. This prevents the impacts on taxpayers of unexpected large tax increases in any one year.**



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Duties

The abolition of stamp duties remains a long term priority, as these are highly inefficient, transactions-based taxes that distort economic activity. In the meantime, reforms to a range of duties are needed to reverse the bracket creep that has occurred in recent years, and reduce the burden on businesses.

Conveyance duty is one area where significant reform is needed. Conveyance duty revenues in WA have increased significantly in recent years as a result of the property boom that occurred between 2001 and 2007. Transfer duty revenues have increased from \$787 million in 2001-02 to a record \$2.3 billion in 2007-08 (at the end of the property boom). In 2010-11, transfer duty raised an estimated \$1.2 billion, due to the soft property market conditions.

Although the WA housing market has been flat in recent years, the impact of the property boom is still being felt, given that prices remain high and no adjustments have been made to transfer duty to take into account the period of exceptional growth in house prices. 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 standing at \$453,000 in September 2011, as activity in the State's housing market picks up, the average house purchased in Perth will soon be paying the highest rate of transfer duty.

The tax paid as a proportion of the house value has also increased over time. The tax paid on the median priced house in mid-2001 was over \$4,600 and represented around 2.8 per cent of the house price. The median priced home today now attracts a duty amounting to \$15,532, representing over 3.4 per cent of the total price.

Reforms to transfer duty are necessary to ensure that WA can attract people to the State, given that severe labour shortages are expected to resurface.

Vehicle duty is also a major impost on WA businesses. Stamp duty on motor vehicle licences in WA has more than doubled since the beginning of the decade, rising from \$181 million in 2001-02, up to \$338 million in 2010-11. WA now collects the highest vehicle duty revenues of all States on a per capita basis of \$144.97, followed by Victoria (at \$105.98).

WA's rates of duty on motor vehicle licences are now well above other states, particularly for more expensive cars. The top marginal rate for vehicles over \$50,000 stands at 6.5 per cent. The next closest is Victoria,



where a rate of five per cent is applied to vehicles over \$45,000. The top rate for all jurisdictions excluding WA stands at just four per cent.

As well as the relatively higher rates, WA also has one of the most complex vehicle duty regimes, with different rates applying to motor vehicles depending on whether they were new heavy vehicles, used heavy vehicles and other vehicles.

To ease the burden of duties, the Government should:

- **Adjust transfer duty scales to take into account the property boom that occurred in 2001. The top tax rate should take effect at levels equivalent to that before the boom, based upon current property prices.**
- **Index transfer duty thresholds to address any further bracket creep.**
- **Replace the current multitude of rates and scales that apply to different classes of motor vehicles for vehicle duty with a flat tax regime for all classes of motor vehicles.**

Addressing Labour Shortages

The Government needs to deliver a budget with effective labour and skills strategies that will increase participation, lift the skills of the local workforce and look at ways for more people from the Eastern States and overseas to relocate to WA.

While labour market conditions in Western Australia still remain somewhat patchy following the economic slowdown, labour shortages remain a major concern for many local businesses. The December 2011 *Commonwealth Bank-CCI Survey of Business Expectations* revealed that more than 45 per cent of local employers were finding labour to be “scarce” during the quarter, with a similar proportion expecting the problem to persist in coming three months.

The difficulty to find workers has also added to the cost of doing business in WA. This has predominantly driven wages higher as employers have been forced to compete on the basis of salary to attract and retain the workers they need. These cost pressures were reflected in the recent CCI-WABN *Cost of Doing Business Survey*, which revealed that 88 per cent of respondents felt that wage costs were having a significant impact on their business.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

With economic growth in WA expected to return to very high levels within the next two years, it will be critical that labour shortages are addressed as a priority.

CCI estimates that an additional 488,500 workers will be required in WA by 2020. This need for future workforce planning is emphasised by the ageing population and retiring workforce. Even with strong rates of population growth, it is estimated that there will be a shortfall of more than 210,000 workers in WA by the end of the decade.

With more than \$137 billion worth of major investment projects committed to or underway and a further \$131 billion earmarked for the State, WA's demand for extra workers will not be limited to the rapidly growing resources industry and associated construction sectors. The State will need workers in businesses of all sizes, and across all sectors of the economy.

The predicted shortfall of workers will make it difficult for the WA economy to realise its full potential in the short, medium and longer term, unless measures are put in place to ensure that the labour force is responsive and able to achieve growth across all industries, in line with economic activity.

Many labour force policy levers, such as migration, are presided over by the Commonwealth Government. However, the State Government has an important role to play in advocating the State's interests at a national level, and implementing broader strategies to attract and retain workers in WA.

It is recognised that the State Government has made progress in this area, with the release of *Skilling WA* and the *Skilled Migration Strategy*. In November 2011, the Government released its progress report on the first six months of implementing the Strategy.

CCI acknowledges the progress of the Government in implementing some of the following strategies outlined in *Skilling WA*, including:

- advocating on behalf of Western Australia's interests to remove unnecessary barriers to the current migration system, to the Federal Government;
- arranging an industry-led delegation to the United Kingdom and Ireland to promote WA to as a place to live and work;
- developing and launching a skilled migration portal; and



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

- establishing five Aboriginal Workforce Development Centres in both urban and regional areas, including Kalgoorlie, Bunbury, Broome and Geraldton.

While the implementation of these Strategies has been important, the Government must now ensure that it doesn't lose momentum in this area.

The Government needs to further develop targeted programs to increase workforce participation. *Skilling WA* contains a number of recommendations to attract and retain under-represented groups into the workforce. These programs should be aimed at under-participating groups of the population, in particular, disengaged youth, people with disabilities, Aboriginal people, women, migrants and older employees.

CCI supports this objective, and believes that the Government must provide sufficient funding in the 2012-13 Budget to facilitate the following, yet to be implemented, strategies in *Skilling WA* including:

- **making improvements to the current skills assessment process to allow recognition of prior learning (RPL) to up-skill the existing workforce more efficiently. For example, chefs are recognised as a growing skill shortage. Undertaking skills assessments of unqualified cooks and providing access to training pathways to bring their qualifications to chef level, would go some way in appeasing this shortage. Providing support, through easier access to skills assessments and funding training places to up-skill workers, will go some way to meeting skill shortages and improve productivity gains;**
- **providing further support services and programs to assist people with disabilities transition into employment. This combined with the ongoing education of employers to hire and support people with disabilities would enable this group to make a greater contribution to the workforce;**
- **developing a program/toolkit that allows employers to build workforce development strategies. This should include information on improving capacity to offer flexible hours, part-time employment arrangements and job sharing options. It should also focus on encouraging employers to improve organisational capacity to adapt work practices to cater for individual differences. Such a program and information sharing will assist employers to better utilise workers, including mothers, carers and**



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

those with disabilities, that often need flexible working arrangements; and

- **guaranteeing funding of the Aboriginal Workforce Development Centres (AWDC) to improve Aboriginal peoples' participation and facilitate greater engagement of employers to promote long term employment options for Aboriginal employees.**

In addition, CCI encourages the Government to invest in specific training and initiatives targeted at unemployed youth; and the engagement of workers nearing or at retirement age, including:

- **a program to address youth unemployment issues in the Kwinana and Rockingham areas. ABS figures show the unemployment rate for 15-19 year olds in the South West Metropolitan Region was at 20.6 per cent in July 2011. With its close proximity to a major population hub and the Kwinana industrial strip, this area requires a tailored program aimed at providing workforce mentoring and support to engage its youth and long term unemployed; and**
- **programs and incentives for both employers and employees to retain, recruit and retrain mature aged workers, to increase their current level of participation. Mature aged employees have a wealth of corporate knowledge, experience and expertise to offer workplaces. Increasing the longevity of mature age employees in the workforce can be achieved through improving flexible workplace strategies. An example of this is a 'phasing retirement' strategy. This encourages employees to seek options such as moving into part-time hours, taking on different roles in the workplace and increasing the amount of annual leave available. This allows businesses to retain valuable corporate knowledge and experience.**

Migration

A key component of increasing the State's population is through migration.

While migration is a Commonwealth Government responsibility, the WA Government needs to play a key role in representing the interests of the State. CCI urges the WA Government to further advocate to the Commonwealth Government on the need to streamline and improve immigration processes to meet the needs of individual States' workforce requirements.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

CCI members have identified a number of frustrations with the current migration program. Unnecessary red tape, inconsistent requirements, lack of transparency in skills assessments, and delays in application processing have all been identified as impediments for business.

CCI urges the WA Government to allocate sufficient funding in the 2012-13 Budget to ensure the following state based initiatives are progressed.

- **Skilling WA** has recommended improving the qualification assessment process that allows qualifications gained overseas to be recognised in Australia. Currently the system of recognising overseas qualifications to meet Australian standards is administratively burdensome and costly to both migrants and employers. More efficient processes are required to streamline the migration process, particularly in trades and health/medical care professions.
- the State Government should continue to advocate changes to the migration system including: reducing processing times by simplifying the application requirements to ensure full and complete applications are submitted by employers and potential migrants on the first attempt; broadening the skilled occupations lists to reflect WA's identified skilled priority occupation list; and improving the Working Holiday Maker program and Student Visa working conditions to better meet businesses needs. CCI recommends that the State Government lead a delegation, comprised of a range of representatives from industry and government to Canberra, to advocate WA's migration needs.
- The State Government should continue to implement strategies to attract migrants to Western Australia, from both interstate and overseas. This includes finding new ways to highlight WA's ever increasing labour force and skill requirements, to our State counterparts and New Zealand. Other countries that should be targeted include the UK, Ireland, USA, Greece and close trading partners. CCI believes that research, through a poll or survey, should be undertaken to determine the level of incentives or services needed to entice workers to move to WA.
- CCI is also eager to see the proposed Memorandum of Understanding (MOU) between WA and Ireland, which was negotiated during the Minister's delegation to the UK and Ireland in July 2011, signed and acted upon. The MOU is intended to



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

deliver streamlined initiatives to assist Irish workers secure temporary skilled positions in WA.

Migration support services

Skilling WA recommends improved migrant support services targeted at increasing workforce participation of migrants and families. While a dedicated Workforce Development Centre has been opened by the State Government to assist migrants and employers, further support needs to be invested to improve migrant services, particularly to regional areas.

The focus of Government spending should focus on improving migrants access to settlement services. This includes providing migrants with culturally and linguistically diverse backgrounds the opportunity to take basic language, literacy and numeracy courses.

Currently there are many conditions put on eligibility to access migrant services including length of time spent in Australia, type of visa, age and place of settlement. For example, to access programs such as the Settlement Grants Program and the Adult Migrant English Program, entrants need to be permanent residents who have arrived in the last five years, as either humanitarian entrants or family stream migrants, with low English proficiency; or be dependants of skilled migrants located in rural or regional areas, with low English proficiency.

CCI understands that there is a range of services from numerous providers for migrants to utilise. However, the current system is complex to navigate, and is hard for many migrants to access if they do not meet particular requirements. **The Government should undertake a review of all services available to migrants. CCI believes that establishing a one-stop shop for migrant support services would assist migrants and their families to be easily directed to access to services.**

Addressing regional labour needs

Finding suitably qualified workers in regional areas is an increasing challenge. Not only are there smaller pools of available labour in regional areas, it is becoming more difficult to attract people to the regions to take up positions as living costs increase.

Many regions across WA have unemployment rates of less than three per cent, making it extremely difficult for local employers to source the labour they need.



Attracting workers to the regions is hampered by high cost housing, disproportionate rental costs, and lack of adequate service provision.

Skilling WA highlights the need for regional workforce planning. The Federal Government has recently announced Regional Migration Agreements (RMA), a new migration tool to address labour shortages in regional areas. RMA's provide a vehicle for communities to identify and address specific skill shortages in a particular regional area; and enable the region to enter into a labour agreement to meet the regions unique needs. The State Government needs to facilitate the use of this migration option to ensure regions can have access to the workers that they need.

***Skilling WA* outlines a number of recommendations focused on addressing labour shortages in regional areas, which the Government should focus on progressing in the 2012-13 Budget. In particular, CCI would like to see:**

- **the Government investigate strategies to improve access to affordable housing, focusing on land availability and use, infrastructure development and the ready supply of construction material;**
- **further exploration of regional allowances, incentives and benefits to attract and retain the workforce in regional areas. While this is predominantly a Federal Government responsibility, work needs to be done to align current allowances with market rates. In particular, the State Government should continue to work with the Commonwealth on options to use the tax system to encourage labour mobility, such as restoring the value of the Zone Rebate; and**
- **the continuation of Regional Re-population Plans, such as the one developed by the Shire of Dalwallinu, to make regional areas of Western Australia more attractive places to live and work. The re-settlement of immigrants into regional areas ensures towns attract and retain new residents to assist with workforce supply and economic growth for a sustainable future. This pilot model provides a basis for sustained development and assistance with regional labour needs.**



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Education and Training

The Western Australian Government has a key role in relation to education and training, to ensure that the current and future workforce has the necessary skills to fill job vacancies.

Independent Public Schools Program

The Independent Public Schools (IPS) Program is gaining momentum with 207 public schools now qualifying to participate in the scheme. The IPS Program provides public schools with the autonomy and flexibility to make key decisions on how to meet the specific needs of the communities they serve. **This autonomy should be extended by reforming the current pay levels and structures, for greater career progression for teachers, so that remuneration becomes based on performance.**

With the next intake round scheduled for 2013, it will also be necessary to ensure the schools, currently in the Program, are operating effectively, and help promote the benefits to schools not yet participating. **A review of the Program should be undertaken to measure the Program's progress against key performance indicators, to highlight the Program's strengths and ensure that positive outcomes are being achieved.**

Mentoring and assistance should be provided to schools participating in the IPS Program to ensure schools are fully benefiting. Mentoring and support should also be provided to schools not yet engaged in the Program to assist them to meet the program criteria for entry.

School funding

Determining appropriate funding models for the education system is needed to ensure our schooling system adequately provides for all students in compulsory education, regardless of public, private independent or catholic schooling choice.

The Federal Government is undertaking a review of school funding. Its recommendations are expected to be implemented in 2012. It is crucial that the State Government work with the Federal Government, education providers and the local community, to determine a funding model that is effective, efficient and transparent. This will allow our education system to support an economy that promotes greater workforce participation and increased productivity levels.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

CCI advocates that universal access to a quality education is imperative to ensuring greater workforce participation and improving productivity. Any funding model should be guided by the following principles.

1. Investing in education will increase the capacity of the economy.
2. Every child has the right to an education that provides them with basic literacy and numeracy skills that meets national standards.
3. Children in disadvantaged positions require additional targeted funding and programs.
4. Funding arrangements should be based on improving outcomes rather than following processes. This includes performance pay incentives for high quality teacher performance.
5. Parents should have the opportunity to choose a school that is most suitable for their child/ren.
6. All schools should be given greater autonomy to determine how to best meet the needs of the community.
7. The education funding model from both State and Federal Governments needs to be simplified, transparent, and clear to ensure fairness and demonstrate value for money.

Encouraging greater involvement and investment from local communities, businesses and industry in the education system may be a possible solution to funding issues and create stronger links between school and employment outcomes. **The State Government should greater explore business-school partnership models.**

School pathways

Building flexible pathways between schools, Vocational Education and Training (VET) providers, universities and employers that maximise learning opportunities for students is important to ensure Western Australia's diverse workforce needs are being met. However, there are problems with the current course system that allows students to choose between three stages of study.

Concerns have been raised by CCI members that students are opting for lower level courses and not stretching themselves academically. This may lead to a lower skilled workforce.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

In 2010, only 59.2 per cent of students in WA achieved a suitable Australian Tertiary Admission Rank (ATAR) to gain entrance to a university course. In comparison, close to 83 per cent of students in New South Wales are achieving ATARs high enough to go on to university studies.¹ Increasing the proportion of students achieving a Western Australian Certificate of Education, attaining an ATAR and/or a VET Certificate II, is essential to meet community and employer expectations of secondary schooling.

CCI urges the Government to develop broad reaching programs to inform teachers on labour market information, including up-to-date labour and skills shortages data, to ensure appropriate career advice and student mentoring is being delivered in schools, across the State.

Training

It is important our training system has the capability to provide the skills required to meet industry needs. This can be done through targeted and responsive re-skilling of the under/unemployed to meet workforce gaps that currently exist and those that are rapidly emerging.

We need to ensure the skills required by employers in all sectors of the economy are being met. Linking industry skill requirements more closely with what is being taught in the education and training system, will allow employers to have greater influence in sourcing skilled workers.

CCI believes that a key focus for the Government in the 2012-13 Budget should be to expand training opportunities through apprenticeships and traineeships to enable industry to meet future skills needs. Investment in apprentices and trainees is essential to the future of the State's workforce growth, not only to attract good apprentices and trainees, but also to retain them.

In particular, the following recommendations from *Skilling WA* need to be given attention to in the 2012-13 Budget:

- **specific programs to increase attraction and retention of apprentices and trainees; and**
- **a State-led strategy to work with industry to increase language, literacy and numeracy within the workplace.**



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Reforming Industrial Relations

Business efficiency through single national system for private sector

CCI believes that reform of the industrial relations (IR) system is necessary to ensure consistency and certainty for WA employers and employees, and help reduce compliance costs on businesses.

CCI has consistently maintained there should be full referral of industrial relations powers to the Federal Government to achieve a single national system covering all employers and employees, and remove costly duplication and confusion, especially for small business.

Retention of the State industrial relations jurisdiction perpetuates unnecessary red tape and uncertainty for employers and employees about the applicable minimum standards, rights and obligations.

If the State's IR powers are not referred, CCI's key priority for reforming the State system is the rationalisation (reduction) and modernisation (updating) of State awards.

In particular, the number of awards should be reduced from 215 to 20, correlating with what CCI recommends at both Federal and State level. Awards should also be updated so that small businesses have the capacity to align service provision with customer demand and understand compliance obligations.

For example, the main retail award, *Shop and Warehouse (Wholesale and Retail Establishments) Award*, should be aligned with amended retail trading hours so that ordinary hours worked after 6pm do not automatically attract overtime rates. There are many such examples of inefficiency and costly provisions that prevent businesses from trading.

Such changes could be effected by Ministerial direction and implemented by the WA Industrial Relations Commission (but also subject to legislative amendment).

State Review of Industrial Relations system

The recent public rejection by the State Government of the IR changes recommended by Blake Dawson partner Steven Amendola, was followed by indications the Government is intending to introduce a package of reform amendments into State Parliament in early 2012.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Although no details are known, it is understood the proposed changes are consistent with the approach outlined in May 2011. A two pager was released focusing on minor machinery changes in the structure and jurisdiction of the Western Australian Industrial Relations Commission; and minor harmonisation between the Federal and State laws and modernisation of state legislation, including the removal of unnecessary provisions.

Whereas the Amendola Report made important recommendations for ensuring the system would be more relevant to users, the approach identified in May only suggests some tinkering around the edges.

Any reforms to the State industrial relations system must align services to the known needs of the user, improve efficiency, reduce red tape and remove an overlapping and confusing dual system of regulation.

Public Holiday reform

Action is urgently required to bring the number of public holidays in WA into line with the rest of Australia and thereby reduce the cost burden on business.

The interaction between *WA's Public and Bank Holidays Act* and the *Fair Work* legislation has reimposed additional public holidays when a holiday falls on a weekend.

With the introduction of the *Fair Work* legislation, previous arrangements between employers and employees through State awards and agreements about public holiday substitution have ceased. WA businesses operating over seven days a week are forced to recognise two public holidays for each occasion or celebration. This is significantly more than in any other State or Territory, and a major cost burden on business.

Business must now pay penalties to employees who work on the actual public holiday and the additional day appointed by the Government each time a holiday falls on a weekend. In addition, employees who do not work because the days are public holidays must be paid ordinary wages for the additional days.

The Government must change the regulation to ensure that if a public holiday falls on a weekend, businesses are not forced to pay penalties to employees for an additional day.



Right of entry for occupational safety & health matters

Occupational safety and health (OSH) entry to all workplaces in Western Australia (WA), by virtue of the *Fair Work Act 2009* (FW Act), is regulated by sections 49G and 49I to 49O of WA's *Industrial Relations Act 1979* (IR Act).

This allows a union to gain immediate entry to workplaces to investigate a suspected breach of the *Occupational Safety and Health Act 1984* or *Mines Safety and Inspection Act 1994* without prior notification and without providing details of the suspected breach.

The reported increase in abuse of the OSH right of entry provisions to gain immediate entry on site, especially in the resources/mining construction sector has the potential to prejudice how investors view the stability of industrial relations in WA and the consequential security of their investment.

CCI believes an amendment to section 49I of the IR Act is needed to ensure the OSH right of entry in WA is consistent with the generic right of entry under the FW Act.

CCI proposes an additional sub-section to section 49I of the IR Act, that requires the authorised representative of an organisation (union) to provide to the employer or occupier written details of the suspected OSH breach, and a declaration that the union is entitled to represent the interests of the worker that the suspected breach relates to or affects.

Although Minister O'Brien has positively responded to CCI's call for legislative amendment, CCI believes that the OSH right of entry amendments must be made urgently and well ahead of any other changes to the State IR system.

Cutting Regulation and Red Tape

While effective regulation is a vehicle to ensure the Government's social, environmental and economic objectives are met, excessive regulation and red tape adversely affect the ability of business to operate efficiently in WA.

The impact of regulation and red tape on businesses was reflected in the recent *CCI-WABN Cost of Doing Business Survey*. The results showed that businesses in WA continue to struggle under a heavy regulatory burden, which has been increasing in recent times. Some 63 per cent of respondents indicated that regulatory compliance costs had increased over the past five years, with a similar proportion stating that these increased



costs are having a tangible negative effect on their bottom line over the same time period, with many being forced to hold off on expansion plans as a result.

It is critical that red tape issues are addressed if WA businesses are to remain internationally competitive as well as attracting new investment to the State.

The Government has recognised that regulation is an issue, and established the Red Tape Reduction Group (RTRG), to investigate the extent of the burden and ways to address it. In 2010, the Group handed down its final report, which estimated there were 844 Acts and 761 statutory rules in force in WA, amounting to approximately 63,500 pages of regulation. The Group identified red tape reforms which had the potential to deliver an estimated \$44 million in savings to WA businesses in a single year.

Since then, however, the Government has lost momentum for reform in this area, with the majority of the RTRG's recommendations still untouched. **The Government should implement the remaining recommendations as a priority, including:**

- **the introduction of whole of government initiatives to reduce the amount of duplication of information required by Government agencies;**
- **introducing State and individual agency targets to reduce the existing regulatory burden in WA;**
- **introducing agency plans to simplify and modernise existing regulations and processes;**
- **introducing Chief Executive Officer accountability for regulatory reform through conditions introduced to their performance contracts; and**
- **introducing a mandatory review or repeal clause for all new acts and regulations.**

CCI believes that a key reason that momentum has been lost in this area is responsibility for regulatory reform is spread across different agencies and bodies. In particular, implementation of reform is the toughest and most important part of the agenda, however this responsibility sits at various levels and bodies within the State Government.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

To ensure an efficient, timely and coordinated approach to regulatory reform, CCI believes that all responsibility for regulatory reform matters should be transferred to a centralised, sufficiently resourced independent agency, group or taskforce. It is critical that this body has the necessary powers to carry out its responsibilities.

A priority for this body should be to map out and coordinate the various regulatory reform agendas that exist at a state and national level, in particular the COAG National Reform Agenda for a Seamless National Economy, and set out a timeline for implementation.

Approvals

Over the last 12 months the Government has introduced much needed improvements to approvals processes. The establishment of the lead agency framework, Development Assessment Panels and the revised offsets policy are positive steps. Also, the ongoing development and improvement of the online Environmental Assessment and Regulatory System (EARS) is welcome. This system has been received positively by industry and should be used as the basis for a whole of government online system for approvals.

The Fraser Institute's annual Survey of Mining Companies ranks global provinces and territories in terms of the attractiveness of mining policies. WA's ranking has improved from 21st (out of 71) in 2008-09 to 17th (out of 79th) in 2010-11 in part due to its improved regulatory environment.

While these developments are positive, CCI members remain concerned with approvals processes in WA. Excessive timeframes, inconsistency of decisions and a clear lack of resources in relevant agencies are proving real hurdles to project progress.

As a minimum, the Government should fully implement the recommendations of the Industry Working Group report, *Review of Approval Processes in Western Australia*. The Government has implemented some of the report's Phase 1 recommendations, but to make genuine improvements and to encourage greater investment in WA, more fundamental changes are needed. In this budget year the Government should prioritise Phase 2 reforms, particularly the establishment of a single decision-making authority on approvals. This change is needed to ensure WA remains competitive with other jurisdictions in Australia and other countries.

Significant cultural change is also needed. Approval agencies are often under-staffed and resourced. More importantly, they are not equipped with



the necessary tools and procedures to deliver a consistent and timely service.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Preparing the State for future challenges

Strategic Vision and Direction

The WA economy is set to be transformed in the years ahead as a consequence of major investment, development and economic growth.

While this will be achieved through private investment and entrepreneurship, the Government will need to set out a plan that will build the productive capacity of the economy, and promote innovation, growth and entrepreneurialism, while at the same time delivering real and lasting benefits to the community.

A strategic vision and plan for WA should ensure that Government's limited resources are being used efficiently and effectively, and that all agencies are working towards a common goal. Public sector finances must be reviewed on an ongoing basis, to ensure that the State's budget position is protected, services are being delivered efficiently, and that spending programs are still valuable to the community.

It should also look to coordinate activities across a range of areas critical to the State's long term development, including population and labour force, infrastructure, housing, energy, water, telecommunications, transport, and education.

This strategic vision and direction must sit outside of the annual budget process and a four year political cycle. However, there is a need for greater urgency to articulate this vision and framework as a decade-long expansion is already underway.

The Government has made progress on some important areas for the State's development, with the creation of plans such as *Skilling WA* and *Directions 2031 and Beyond*. However, it is still yet to articulate an overarching direction that will ensure these reforms are implemented in a well planned and coordinated manner.

There are also some gaps in the Government's current strategic planning process. A strategic plan for the State should also include a reform program that will reduce excessive regulation and red tape, improve the State's tax environment, and ensure that future requirements for health and education and training are met. It is also important that a strategic direction focuses on prioritisation of infrastructure projects, to address current and emerging capacity constraints.

A critical part of any strategic direction for WA would be the need to remain flexible, and adjust according to changing needs and demands. The



strategic direction should be reviewed annually, to ensure that it is still relevant and consistent with the needs of the State.

Ensuring Government resources are being used efficiently and effectively

Ensuring that the public service is operating efficiently and effectively is critical to restraining spending growth and protecting the State's finances over the longer term.

Given that Government will face increasing demand for services in coming years and is already struggling to meet its self imposed expenditure target (see Budget Context), it is important that reforms are initiated which aim to increase productivity across the public service. This is especially important where increased spending has not brought with it a commensurate increase in the provision of public services.

The Government has recently announced some public sector reform measures aimed at reducing spending growth, such as the efficiency dividend on Government Trading Enterprises (GTEs), 400 voluntary redundancies, the targeted review of low priority spending programs, and the decision to scrap the Office of Shared Services.

While these initiatives are welcome, any real reduction in expenditure growth will be difficult without structural reform to the public sector, such as the reduction in the number of departments and agencies.

CCI expected that the economic audit process would drive reforms and improvements in public sector efficiency. However, the failure of this process to consider structural reform was a missed opportunity, and the Government has since created new agencies, such as through the splitting of the Department of Treasury and Finance.

While structural reform would deliver the greatest benefits, the Economic Audit Report does set out a range of recommendations that would deliver significant improvements to the operation of the public sector.

However, the Government seems to have lost the appetite for reform in this area, with the majority of its findings still untouched two years after the Report's release.

It is recognised that some progress has been made in relation to people management within the public sector, with amendments to the *Public Sector Management Act 1994* proclaimed on 1 December, 2010. The program is set to continue over the next year with further reforms to the *Act*



earmarked for 2011-12, however little detail has been made available about the specific strategies that will be implemented.

While CCI supports these amendments to the *Public Sector Management Act*, these reforms do not go far enough.

Further reforms are needed to increase accountability, and provide public servants an incentive to improve their performance. In this regard, a priority area for reform is to amend the *Public Sector Management Act 1994* and the relevant subsidiary instruments to lift the freeze on attraction and retention benefits, and allow involuntary separation in the public sector as an option of last resort, which were key recommendations of the Economic Audit Committee.

As part of this next stage of reform, CCI also urges the Government to implement the Economic Audit Committee's recommendations which relate to executive remuneration, mobility and deployment, skills development, and sub-standard employment management as the basis for these strategies, including:

- **better equipping the public sector to meet workforce challenges by supporting the implementation of the *Strategic Directions for the Public Sector Workforce 2009-2014* at a sector and agency level;**
- **enhancing public sector skills and capacity;**
- **strengthening and simplifying the public sector management framework by streamlining public sector oversight structures and removing unnecessary prescription on instruments that regulate recruitment, management, performance management, and discipline of public sector employees; and**
- **expanding the range of powers devolved to accountable authorities by giving agencies greater control over administrative processes that are currently managed centrally.**

While the people management structure of the public sector is an important area for reform, the Government also needs to look at ways to improve agency performance and accountability. In this regard, agencies and CEOs/Directors General must have a meaningful and measurable set of performance indicators to ensure they deliver outcomes. Agencies must also have a clear strategic direction.



The Economic Audit Report outlines a number of recommendations which would improve agency performance and accountability, and help Government deliver its priorities. CCI urges the Government to implement the Committee's recommendations that relate to:

- strengthening communications within Government to ensure clear accountability;
- adopting an outcomes based approach of measuring agency performance;
- strengthening the ability of the public sector to work collaboratively;
- modifying the current performance reporting regime to ensure that performance indicators are relevant and aligned with outcomes; and
- ensuring that agencies undertake value for money audits.

Another important way to streamline the public service, and ensure taxpayers money is allocated to its best use, is through greater involvement of the private sector in delivering services and infrastructure.

It is recognised that the Government has made some progress in this area, with the greater use of the private sector in the construction and operation of a number of hospitals across the state, including the new Fiona Stanley Hospital.

However, there is scope to further involve the private sector in service delivery and infrastructure across a broader range of agencies. **The Government should implement the Economic Audit Committee's recommendations in this area, and ensure that agencies activities are evaluated for opportunities for greater exposure to competition from the private and community sector, and improving partnerships with community sectors.**

Local Government Reform

While local government can play an important role in developing and maintaining communities, the current structure is outdated and is affecting the ability of the sector to operate efficiently.

There is a pressing need to reform local government based on sustainable finances and a reasonable population base. It should be conducted with a strategic perspective in the best interests of the State.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

The Government has attempted to reform local government through a voluntary process of amalgamation. However, this has not been successful. Since the program was announced, there have only been two amalgamations and one of these is still being considered by the Local Government Advisory Board (LGAB). In another example, the LGAB inquiry into the amalgamation of the City of Nedlands and City of Subiaco has been delayed by legal action. The voluntary process will not achieve the goal of a more streamlined local government structure. Stronger action and leadership is now required by the State Government through the process of forced amalgamations.

The WA Government has also announced the creation of a high level independent panel to recommend appropriate boundaries and governance models for local governments in the Perth metropolitan area. The panel has been given quite broad terms of reference including identifying the social, economic and environmental challenges facing Perth in the next fifty years. The panel is required to submit its recommendations to the Minister for Local Government by June 2012.

As a starting point for reform, the Government needs to determine the appropriate Local Government boundaries for metropolitan and regional WA, to ensure there is an appropriate rate base and legislate. Based upon these boundaries, CCI believes the independent panel should recommend the forced amalgamation of local councils. The WA Government should set a timeframe for the delivery of the panel's recommendations, and legislate for amalgamations, given local governments have failed to do so voluntarily.

In the absence of forced amalgamation, monies allocated to regional local government authorities from the Country Local Government Fund, as part of the Royalties for Regions Program, should be directly tied to local government reform.

Infrastructure Development

Both governments and industry across Australia have recognised that a significant infrastructure challenge exists to ensure the country's future prosperity. That challenge is particularly acute in Western Australia given its central role in leading Australia's economic performance.

While the Federal Government is playing a greater part in the funding of major infrastructure projects through Infrastructure Australia (IA), this has not been effective. Particular concerns have been raised about IA being understaffed, which has prevented it from fulfilling its role in identifying infrastructure bottlenecks of critical national importance.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

The WA Government continues to play the critical role in the planning and facilitation of the State's infrastructure network, and this role has become particularly important given the failure of IA to deliver necessary infrastructure to the state. In WA there is a broad political and business consensus on the importance of resolving the State's infrastructure constraints. These constraints must be met not only to develop major projects but also to meet the social needs of the State's growing population.

It is recognised that the WA Government is making a significant investment in infrastructure, with a record \$26.5 billion capital works budget allocated over the next four years in the 2011-12 Budget. This funding was spread across a number of key areas including electricity, water and transportation, as well as the accelerated development of the Perth City Link project.

While CCI supports these projects, it is critical that any infrastructure funding is allocated transparently towards projects that will deliver the greatest long term benefits to the State. This is best achieved through a State Infrastructure Plan. CCI has consistently argued for an overarching plan to ensure the appropriate prioritisation of infrastructure projects and the creation of a transparent project pipeline to assist project proponents with their investment decisions.

The infrastructure plan should have as a timeframe the next 20 years. The plan should not only outline the infrastructure project pipeline in WA for the next few decades. It should also detail a framework to allow the smooth interdependence of the various infrastructure arms including land, water, electricity, transport, and telecommunications.

In October 2009, the report of the Economic Audit Committee recommended the development of a long-term (up to 20 years) whole of State land use and infrastructure investment plan under the oversight of the Infrastructure Coordinating Committee (ICC). CCI acknowledges the WA Government's revival of the ICC as an important step. However, CCI is concerned that the ICC meets on an ad hoc basis with its deliberations not transparent, and not in consultation with industry. CCI argues that such an arrangement prevents ICC from completing the development of a State infrastructure plan.

The need to grow the State's infrastructure in a fiscally responsible manner means that a State infrastructure plan should also consider infrastructure funding.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

It is crucial that any funding decisions regarding infrastructure development be considered in the context of the Government's broader fiscal management objectives.

While total public sector net debt is expected to rise in line with the record capital works program, the Government still has considerable scope to take on a more ambitious infrastructure program before breaching levels consistent with a AAA credit rating (see Budget Context).

A critical aspect of this is that any increase in borrowings is put towards projects that will deliver a substantial long term benefit to the State. In this regard, it reinforces the need for careful consideration of projects to be funded.

As a general rule, borrowing to finance capital:

- should only be undertaken for additions to the capital stock, not for maintenance or replacements of existing assets;
- should be repaid over a period no longer than the lifetime of the asset; and
- should be assessed on an appropriate rate of return – which can be difficult when the return is welfare rather than revenue.

The Government should also look to greater private sector involvement in the construction and delivery of key infrastructure services. The EAC noted that over the last two decades that State Governments' have been reluctant to inject greater competition into the delivery of public services. CCI strongly endorses the EAC recommendation that WA Government agencies be compelled to pursue competitive sourcing of service and infrastructure delivery, unless it can be proven that traditional delivery methods would yield superior outcomes.

Infrastructure priorities

CCI has identified the following projects as infrastructure priorities for consideration in the 2012-13 Budget.

Projects already funded

There are a number of important infrastructure projects for the state, which the WA Government has already committed to fund in previous budgets. These include, Oakajee Port and Rail; Mid-West Energy Project; Kwinana



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Intermodal Terminal; and the Perth Waterfront Redevelopment. CCI supports the WA Government's commitment to these projects.

Projects partially funded

While a funding commitment has already been made to the following projects, further funds should be committed to the remaining elements of these infrastructure projects, to ensure the full benefits are realised.

- Pilbara Cities – A total of \$146.9 million was allocated to the Pilbara Cities Project in the 2011-12 Budget as part of the Royalties for Regions program. In November, the WA Government allocated \$65 million to complete the first two stages of the Karratha City Centre Infrastructure Works. CCI acknowledges the Government's commitment of expenditure to the completion of underground power to some Pilbara communities, relocation of the Port Hedland wastewater treatment plant, and planning for the Karratha to Wickham coastal road and Pilbara Maritime Common Use Support Facility. Further funding should be allocated in the 2012-13 Budget to ensure the continuation of this project.
- A New Multi-Purpose Outdoor Stadium – In June 2011, the WA Government announced that Burswood would be the location of a new 70,000 seat Multi-Purpose Stadium, with \$100 million committed towards the project later in the year. With speculation the project could cost more than \$1 billion, the WA Government should deliver a firm timetable and commit additional funding to ensure the project is developed in an orderly and transparent matter.

Unfunded projects

- Water infrastructure in the Pilbara – The West Pilbara Desalination Plant was deferred in the 2011-12 Budget. The Government advised that alternative options for meeting future demand for water in the Pilbara are being considered, including provision by the private sector. The Government should expedite this evaluation process given that a number of major development projects in the Pilbara are due to commence construction in the near future.
- Gateway WA – The WA Government in its submission to Infrastructure Australia identified the Gateway WA Project as one that should be considered for funding as a project of national significance. The Project is still under the subject of a planning study. The Government should commit funding to this project in this year's Budget, to ensure it proceeds to the planned construction phase earmarked for 2012-13.



- North West Interconnected System – Significant new investment is needed in the state’s second largest electricity transmission network to meet growing demand from the resources sector in the Pilbara. While current investment in infrastructure within the NWIS aimed at increasing existing capacity is welcome, further capital investment in transmission and pipeline infrastructure is needed.
- Bunbury Port Expansion – The 2011-12 Budget allocated \$1.5 million for minor civil works to take place at Bunbury Port over the next 12 months. The Government should look to upgrading infrastructure to support the continued growth of the Bunbury Port.
- Kalgoorlie-Boulder Intermodal Freight Facility – The Department of Transport was allocated \$5 million in the 2011-12 State Budget towards the development, planning and design of the “Portlink” Project. An intermodal freight hub in Kalgoorlie-Boulder with upgrades to the road network to the North West could offer a significant reduction in the cost of the transportation of inbound freight from Eastern Sates to major projects in the Kimberley and Pilbara, and further funding is needed to ensure the project proceeds to construction.
- Public Transport Strategy – In October the State Government closed submissions for its Public Transport Strategy for Perth to 2031. The Department of Transport is currently developing a final strategy. The Department has acknowledged that the strategy will need to include a detailed short-term and long-term funding plan for the relevant infrastructure. The Government should release the short and long term funding plan concurrently to assist the proper development of a project pipeline.

Projects in the planning phase

- Fremantle/Cockburn Sound Port – A secondary port around Cockburn Sound that can address future capacity constraints at the Fremantle port is an important infrastructure project for WA. The State Government needs to make a decision on this project’s development to provide industry and investor certainty. If this port is to be funded through the private sector, the Government should detail how the port’s supporting road and rail infrastructure should be funded. Any decisions by government about future port development should include provision for private sector involvement either through the construction and/or operation phase.



Local Content

The issue of local content has been the subject of much public debate. Ensuring local suppliers fair, full and reasonable opportunity to tender for work on major resource projects remains a challenge. The WA Government released its local content policy in July 2011 which needs to be funded in this year's budget.

Industry Capability Network (ICN) is part of a national network of independent industry consultancies that is jointly funded by the State Government and industry. Its aims are to introduce Australian and New Zealand companies to the supply chains of major projects.

The current WA State Government core funding of the Industry Capability Network WA (ICNWA) is only allowing ICNWA to engage three consultants on three WA projects. ICNWA has had to obtain industry funding to enable additional resources to be employed, as WA project proponents have requested ICNWA services to support their project's Industry Participation Process.

WA projects, which are active in 2011-2012 and cannot be supported by ICNWA as there is no funding include, Fortescue Solomon Iron Ore project; Jack Hills Expansion Iron Ore project; Tropicana Gold Project; BHP Billiton Yeelirrie project; Weld Range Iron Ore Mine; Cape Lambert Iron Ore Project; and the West Pilbara Iron Ore Project

The current level of core funding needs to be increased so that the State Government can gain the benefit of ICNWA being engaged on a greater number of WA resource projects. The ICNWA core State Government funding needs to be increased to enable three extra consultants to be employed full time. ICNWA would then have six full time consultants for its industry participation service.

ICNWA believes the current number of consultants will prove to be inadequate to assist industry given the projected resource sector activity forecast for WA over this decade. There is already a significant backlog at work due to the demand on its services by project proponents and suppliers. The WA Government is strongly committed to the development of the Browse project but has not indicated it will increase funding to ICN as part of this commitment.

To assist ICNWA carry out its role, the WA Government should increase funding to ICN to allow the employment of six Consultants.



Regional Development

The Government's review of Regional Development Commissions (RDCs) had the potential to deliver improved outcomes for people living in regional areas of WA.

However, CCI is disappointed the WA Government failed to act on one of the major recommendations of its review of RDCs, to create a single government agency responsible for regional development in WA. Having such a body would have enhanced the consistency and accountability of the activities of RDCs. It would have also established an appropriate level of consistency in policy implementation across the regions.

Nonetheless, CCI believes that significant improvements can still be made to the regional development framework within the current RDC structure. The creation of an Executive Chair position for the WA Regional Development Council offers an opportunity to facilitate this. **The WA Government should ensure that the Executive Chair is given the appropriate funding and resources in the 2012-13 Budget to properly coordinate the activities of the RDC so their activities improve the quality of life across regional WA as whole.**

There is also merit in the Government's decision to develop reports identifying service gaps and investment opportunities in regional areas, particularly given that some regions have not had a planning strategy conducted for more than a decade.

CCI is concerned that these plans are being developed in isolation from each other. These blueprints should be coordinated simultaneously through the WA Planning Commission, and deliver a detailed and coordinated economic and investment blueprint for regional Western Australia. It is also important that funding provided under the Royalties for Regions program be tied to these plans, to ensure transparency and ensure that funding is allocated to projects that will deliver the greatest benefit to the region.

Energy

The long-term growth of the WA economy requires secure, reliable and competitively priced energy.

The energy sector requires massive investment to meet the current and growing needs of the WA economy. The Government's own Strategic Energy Initiative Directions Paper noted that generating capacity in the South West Interconnected System may need to more than double over



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

the next 20 years and peak demand could increase by as much as 90 per cent.²

Meeting these needs requires a strategic framework from the Government to create greater long-term certainty and facilitate the massive investment in the energy sector that is needed.

CCI continues to await the final recommendations of the Strategic Energy Initiative (SEI) to provide such a framework. Industry has been working with the Government for nearly two years in developing the SEI but recent drafts have shown that short-term politics are hampering efforts for genuine reform. The latest indications suggest that the final SEI discussion document may not be ready for public release until the middle of 2012. In addition, recent comments by the Premier about a potential re-merger of Synergy and Verve send the wrong signals to private investors and would be a backwards step in the development of a future competitive energy market. Competition is vital to meet the State's growing needs and to put downward pressure on electricity prices in the long-term.

The Government needs to deliver the SEI as a first step to putting in place “the policy, regulatory and incentive mechanisms to ensure WA’s energy market will be dynamic, competitive and efficient”.³

Electricity

The previous budget set out an annual electricity tariff increase of five per cent for residential and small business consumers and up to 30 per cent for business consumers.⁴ But despite these increases, and taking into account planned increases for future years, electricity prices are still not fully cost reflective. **Government needs to make genuine efforts in this Budget towards cost-reflectivity for business and residential consumers as a precursor to the competitive environment that will place downward pressure on prices.** At the very least, the Government continue the path to cost reflective pricing outlined in its 2011-12 budget.

Government subsidies in the form of Customer Service Obligation (CSO) payments to the retailer are estimated at \$439 million in 2011-12 rising to \$448 million in 2012-13.⁵ These subsidies place significant pressure on Government finances, are not sustainable and redirect funding away from Government investment in other areas (e.g. infrastructure projects noted above). At the same time, Government subsidies inhibit the necessary investment in electricity generation and supply. In addition, the carbon tax will add to cost increases and needs to be fully reflected in electricity tariffs.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

The SEI should set out a near-term timeframe for cost reflectivity across all electricity tariffs. In the 2012-13 Budget, the Government should as a minimum phase-out uniform tariffs for large contestable business customers (those using over 50 MWh per year). This will foster greater competition and greater awareness of energy efficiency measures amongst these consumers. These actions should be accompanied by a plan to introduce full retail contestability over a longer period.

Gas

The Government has made positive progress on some gas issues. The commitments to create a Gas Bulletin Board and Gas Statement of Opportunities are important steps towards greater competition and security.

However, like electricity tariffs, cost-reflectivity is essential for gas prices. The Government ignored Office of Energy advice and increased gas tariffs by only 10 per cent (as opposed to the 30 per cent recommended over two years) in August 2011, meaning gas retailers are still effectively subsidising consumers in WA.⁶ Competition also remains weak because of restrictions against retailers offering duel fuel services. As part of the move towards cost-reflectivity, this prohibition needs to be lifted in the short-term to encourage greater competition in both electricity and gas retailing.

Like electricity tariffs, CCI believes this situation is unsustainable for the Government and will inhibit investment in gas infrastructure. **To further encourage competition and downward pressure on prices the Government should urgently set out its approach to regulating and encouraging the development of unconventional gas sources.**

Addressing social objectives

CCI recognises that rising energy costs do cause financial hardship in some parts of the community. However, below cost tariffs represent a cross-subsidy from taxpayers to all energy users and are not an efficient means of responding to genuine hardship.

The WA Government should pursue social objectives outside of the tariff structure via direct and transparent Community Service Obligations (CSO) payments to vulnerable groups. Such a structure ensures that the price signals of higher energy prices (which encourage greater energy efficiency) still flow through to all customers while providing support to those in need. **As an immediate step the State Government should urgently work with industry, community groups and the federal**



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

government to develop efficient means for delivering direct CSO payments to consumers.

Energy infrastructure

Investment is also needed in essential energy infrastructure. **Given its current direct investment in the electricity sector, Government needs to invest in electricity networks at levels sufficient to ensure this vital infrastructure supports the needs of WA businesses.** While Western Power's Third Access Arrangement is currently being reviewed by the ERA, it is important that Government appropriately plan for the necessary investments in the South West Interconnected System (SWIS).

Furthermore, Government should urgently complete its analysis of a constrained access model for the SWIS and the potential expansion of the North West Interconnected System. These are priority issues for WA's growth that have the potential to improve the efficiency of the WA economy if Government and business can create an effective partnership.

Resourcing the Office of Energy

The energy agenda set out above is challenging and requires a fully effective Office of Energy. Uncertainty around its leadership and insufficient resources mean that the Office will be hard pressed to implement this agenda. **The WA Budget must set aside sufficient and appropriate resources so that the Office of Energy can work with business and the community to deliver the energy strategy that WA needs.**

Health and Community Services

Social Services Package

The health, aged care, disability and community sectors are facing a serious workforce shortage now and into the future as the population ages.

CCI recognises that the Government provided a significant funding boost for the community and social services sector in the 2011-12 Budget, which will help the sector continue to attract and retain staff in an environment of labour shortages and rising wages.

The Government committed more than \$600 million over five years, to ensure a sustainable not-for-profit sector and address a shortfall in the amount paid to not-for-profit organisations for the services they provide. Of this \$491 million is to be used over four years to provide an average 25 per cent increase in funding for service agreements to 2014-15. Funding has



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

also been allocated to streamline reporting requirements and standardise contracting practices, and ensure non-for-profit organisations' contract payments are indexed in line with cost increases in the delivery of human services.

The next step is for government to outsource additional services to not-for-profit providers. CCI encourages the Government to continue the roll-out of services to these providers.

While CCI supports the funding boost announced by the Government in the 2011-12 Budget, not all members of the not for profit community and social services sector are benefiting. CCI members in the not-for-profit aged care sector, most of which are funded from the Federal Government, have missed out on the funding boost, and are now at a considerable disadvantage in attracting and retaining workers in the current tight labour market conditions.

The Commonwealth has recently recognised the challenges faced by the sector by providing a \$2 billion funding boost to increase the salaries of low paid workers in the social and community services sector. At this stage, the Federal Government is proposing making a joint submission on equal pay with the Australian Services Union to Fair Work Australia with the \$2 billion being offered as a commitment to fund the wage increases.

However, more needs to be done to help these organisations attract and retain staff. **The State Government needs to advocate strongly to the Commonwealth in relation to:**

- **Changes to skilled migration programs, which aim to streamline and improve the immigration process (see migration section);**
- **Extension of education and training pathways for attaining qualifications in aged care, through the development of core competencies across all elements of the workforce that align with industry needs, to enable flexible and efficient work practices;**
- **Maintaining the current Fringe Benefits Tax exemptions for Not-for-Profit organisations, and simplifying the legislation to reduce the administrative and compliance costs. The current caps for FBT exemptions should also be indexed to average weekly ordinary time earnings, to preserve the value of the concession.**



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Health

While the Government has recently committed to a number of initiatives which will help deliver improved health services in WA, there remains a pressing need to shift the focus to preventative health, to ensure the sustainability of the sector, which is expected to come under significant pressure in the years ahead.

Preventative health is critical if Australia is to retain its current status of a socially conscious, economically strong country with a high standard of health and a sound health care system.

While the health of Australians is amongst the best in the world, smoking, drinking alcohol and being overweight or obese are risk factors that contribute to 32 per cent of the burden of disease. These risk factors are modifiable but if allowed to continue will escalate chronic disease in an ageing population. Deteriorating health of a population will have a negative impact on economic growth, the maintenance of a productive workforce and the ability of government to fund adequately the growing needs of health, aged and disability care.

The need to focus on preventative health has been outlined in CCI's recently released discussion paper, *Preventative Approaches to Health*.

In the 2012-13 Budget, the Government should develop a State Preventative Health Plan to encompass all aspects of preventative health, from birth onwards. The plan should focus on the following key elements.

- ***Short and long term preventative health goals with measurable and accountable outcomes*** - Goals should be clear, concise and set targets at regular intervals over a 10 year period. Key performance indicators should reflect practical and measurable outcomes based on high expectations and be subject to annual reporting to Parliament.
- ***Education*** - To gain the prominence required, Government must encourage preventative health education through all possible channels, targeting early childhood and children and young people in formal education. Programs should continue through a person's working life, be part of recreational activities and remain present in post retirement programs. Both government and non-government organisations can deliver the programs depending on the type of program and who is best placed to achieve the best possible outcome.



- ***Marketing of strong and continuing health promotion messages*** - Marketing programs need to be strong and well targeted. Government has engaged in a number of marketing programs with some success. These programs appear to be based on media rather than comprehensive marketing. In some cases it is done in isolation from groups that can act as champions in everyday community life. CCI recommends that Government should engage further with the relevant groups that can disseminate and reinforce the messages.
- ***Emphasis on the productivity and economic benefits of a healthy workforce*** - Research clearly shows healthy workers are more productive. Good preventative health programs can aid attraction, recruitment and maintenance of a stable workforce. Whilst it is not the responsibility of employers to maintain the general health of their workforce, the case for implementing preventative health strategies at the workplace is sound. Government can and should encourage and support employers in establishing preventative health programs suitable to their workplace.
- ***Partnerships*** - Governments should engage with key business and industry leaders across all of the private and private-not-for-profit sectors to build new and effective partnerships that drive health promotion.
- ***Governance*** - The creation of a whole-of-government plan requires the highest level of commitment and ownership supported by specialist management. CCI proposes that the initiative is separately administered and preferably within the Department of Premier and Cabinet with appropriate reporting to Government.



CHAMBER OF COMMERCE
AND INDUSTRY
WESTERN AUSTRALIA

Endnotes

¹ A Review of the 2010 Year 12 Results, Tertiary Institutions Service Centre (TISC), 2011

² Economic Regulation Authority, *Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs*, August 2011

³ Minister for Energy, *Minister launches next step to provide direction for State's energy sector*, Media Statement, March 2011,
<http://www.mediastatements.wa.gov.au/Pages/Results.aspx?ItemID=137221>

⁴ Department of Treasury and Finance *2011/12 Budget Paper No. 3*, p286

⁵ Economic Regulation Authority, *Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs*, August 2011

⁶ Office of Energy
http://www.energy.wa.gov.au/3/3757/64/gas_price_increases.pm

