

2020-21 Pre-budget submission

September 2020



Chamber of Commerce
and Industry WA



Executive summary

While every budget is important, the 2020-21 WA State Budget is more important than most. Decisions made within the budget will have a significant bearing on how we as a State recover from the economic effects of COVID-19.

In its first three years the State Government made excellent progress on repairing the budget. This has allowed it to support the business community and broader economy through the COVID-19 crisis.

Beyond continuing to monitor the virus and its economic stimulus measures, the State Government must now focus on making the Western Australian economy more resilient and competitive. In the latest WA Super CCIWA Business Confidence Survey, 98 per cent of businesses said a clear plan to grow the economy and undertake meaningful economic reform would improve confidence.

Given restrictions on the international movement of people due to COVID-19, we can no longer rely on migration and house price appreciation to grow our economy — growth must come from enabling businesses to be more globally competitive.

And with six out of every seven jobs in the private sector, improving the environment for local business

is imperative if we are to recover jobs lost during the pandemic. A continuing focus on economic reform is the only sure way to achieve the strong jobs growth required to get Western Australians back to work.

To drive economic growth, this submission sets out a comprehensive reform agenda that builds on our COVID-19 Recovery Reform Roadmap. As a priority, the State Government should:

- Signal it will push for a more efficient and competitive tax system that attracts investment, creates jobs and grows our economy.
- Extend retail trading hours to give businesses flexibility to earn as much revenue and employ as many people as they can.
- Allow small and medium sized businesses in the South West Interconnected System to choose their electricity retailer, so that competition will drive a sustainable reduction in energy costs for those businesses.
- Develop a global re-engagement strategy that frames our State's overall goals for trade and investment, to fast-track WA's reintegration into the global economy and support local

businesses to make a forward press into international markets.

- Make the State's training system more market based, agile and responsive, so that businesses and workers can access the skills they need to thrive.
- Continue to turbocharge red-tape reduction by piloting a regulatory sandbox, so that regulations do not prevent businesses from adapting to new opportunities.
- Establish an overarching manufacturing Industry 4.0 strategy to support businesses in the sector to capture greater global market share and grow jobs.

The submission also sets out important recommendations about industrial relations reform, infrastructure, and local government functions and finances.

We recognise the importance of striking the right balance between fiscal sustainability and supporting the economy through this difficult period, and the submission includes recommendations to this end. Importantly, the State Government should not introduce new, or increase existing, taxes to repair the budget — the best way to address the current build-up of

debt is through economic growth.

As for the short-term response to COVID-19, it is appropriate that the Commonwealth Government continue to do the heavy lifting in supporting the economy and businesses.

For the State Government however, it is essential that it clarifies the preconditions for reopening the economy, including state and international borders, in order to give businesses the certainty they need to rebuild. The State Government should explain the standards that have to be met across state and international jurisdictions in relation to factors such as community transmission, testing, contact tracing, quarantining, and social distancing measures. This is critical to ensure decisions made are not arbitrary, nor viewed as such.

The ideal model is one where a national approach to containing local outbreaks is agreed. This would provide the confidence for individual states to reopen their borders, and to rely on local outbreaks elsewhere being quickly and effectively contained. National Cabinet is the vehicle to achieve this.

A second-best option is for the State Government to outline its own plan. This executive summary sets out CCIWA's views on the sort of conditions that may need to be met to move through WA's restriction phases. We recognise that these conditions must ultimately be based on health advice, and as such they are only intended to be illustrative.

If the State Government makes the right decisions now, we can rise to the challenge and thrive, rather than just survive.

As we embark on a journey of major economic recovery, the WA business community looks forward to working constructively with the State Government on driving further reform to ensure that WA businesses are as well placed as possible to continue to create jobs

CCIWA's suggested pre-conditions for moving through WA's restriction phases

WA is currently in Phase 4. Movements into Phases 3 or 5 (which involve the degree of restrictions within WA) should be based on community spread within WA, as well as the robustness of testing and tracing regimes. The number of weeks of no community spread required to move into Phase 5 should be explained, as should the scale and nature of community spread required to move back into Phase 3.

Phase 6 would entail Western Australia relaxing its hard border restrictions with other States and Territories. These restrictions are impacting businesses in several ways, including fewer tourists, managing workforces, travelling to provide services, and accessing in person services provided by businesses in other jurisdictions.

Before moving to Phase 6, the WA Government and broader community must first and foremost be comfortable with the Government's own testing and tracing timelines. To this end, the WA Government must publicly set itself benchmarks in the below areas. As noted above, the specific parameters must be based on the best health advice — the parameters included below are intended to be illustrative only.

- Minimal delay between testing and notification of results, eg 24 hours (illustrative only)
- Notifications are made by phone call rather than SMS
- Financial and human support is available for people quarantining
- Minimal delay between positive test and contact tracing commencing, eg four hours (illustrative only)
- Sufficient mobile testing facilities (per head of population) available to deploy when required
- Sufficient test kits (per head of population)
- Commitment to regular scenario and capacity planning for outbreaks (eg every two months – illustrative only), with evidence that systems are functioning as proposed
- Guidance on when people need to get tested, quarantine, go to hospital, etc – advertised in relevant languages
- Signage and staff ready to be deployed in event of outbreak
- Defined and nationally agreed strategy for managing outbreaks in high risk communities eg aged care

In turn, the above areas should form the conditions for other States to meet before Western Australia opens its borders to them.

In addition, the State Government should specify the period in which there is no community spread in other States (eg, two weeks — illustrative only) that is required before opening its borders.

Ultimately the above requirements and conditions will form the basis for an eventual 'Phase 7', whereby Western Australia's borders are incrementally reopened to jurisdictions and countries that align with the benchmarks. This latter phase will obviously require the heavy involvement of the Commonwealth Government.



Recommendations

Push for fundamental reform of our tax system

- To ensure Western Australia has a globally competitive tax system, the State Government should work constructively with the Commonwealth to begin the process of fundamental reform of our tax system. The process should include consideration of what the Commonwealth and state and territory governments can do to reduce the burden of payroll taxes on business.
- The State Government should signal to the community that it will consider significant tax reform, including considering the costs, benefits and distributional impacts of transitioning from stamp duties to a broad-based land tax.
- In the interim, to make the current tax system more efficient and competitive, the State Government should:
 - Abolish transfer duty on non-land business assets in keeping with its commitment under the 1999 GST Agreement, and at a minimum abolish the tax for business restructures.
 - Confirm that the progressive payroll tax scale does not apply in 2023-24 – the final year of its forward estimates.
 - Reduce the burden of complying with the system by:
 - o Raising the threshold for which businesses are required to lodge payroll tax returns on a quarterly basis. Businesses should be allowed to lodge quarterly if their liability is between \$20,000 and \$150,000.
 - o Exploring the options of issuing notices of assessment electronically, developing online portals, and for taxes such as land tax and transfer duty, rationalising the number of brackets and rates.

Abolish regulations that tell retail stores what they can sell when

- To give businesses flexibility to earn as much revenue and employ as many people as they can, the State Government should abolish regulations that tell retail stores what they can sell when:
 - Remove column 2 in section 7 of the Retail Trading Hours regulations, which stipulates what a business can sell when.
 - Align Saturday trading to weekday trading by extending Saturday trading hours four hours in the evening, taking allowed trading hours from the current 8am to 5pm, to 8am to 9pm.
 - Open up Sunday morning trading by extending allowed trading hours three hours in the morning, taking allowed trading hours from the current 11am to 5pm, to 8am to 5pm.
 - Formally enact Public Holiday trading extensions to reflect the standard extension that is currently applied. This would entail extending allowed trading hours on Public Holidays by three hours in the morning and one hour in the evening, taking allowed trading hours from the current 11am to 5pm to the standard precedent of 8am to 6pm.

Reform the retail electricity market in the South West Interconnected System

- To drive energy costs for small businesses down in a sustainable way, the State Government should allow small businesses in the South West Interconnected System to choose their electricity retailer. The contestability threshold should be lowered to 20 megawatt hours of electricity per annum or a qualitative definition that ensures all non residential consumers are contestable should be adopted.
- The State Government should remove the inefficient cross-subsidies currently used to support the Uniform Tariff Policy and fund the policy from general revenues instead.

Fast-track WA's reintegration into the global economy

- The State Government should execute a comprehensive and targeted strategy for filling the vacuum in global investment and trade markets. This strategy should include specific and practical initiatives. In particular, the State Government should partner with CCIWA to develop a WA Investment Portfolio Deal Book. The Deal Book would actively promote major investment opportunities to prospective foreign investors across a diverse range of WA industries, including healthcare, agribusiness, advanced manufacturing and tourism. The strategy and Deal Book can be developed now.
- To address an expected decline in migration to Western Australia and associated reduction in the State's economic growth, the State Government should develop a strategy to grow our population. This should include reviewing all relevant State policy settings, including in relation to visa and tax policy.
- To facilitate Western Australian businesses' immediate diversification into alternative markets, the State Government should expand its efforts to support small and medium sized businesses seeking to diversify their import and / or export markets. The NSW Export Accelerator and Export Capability Programs, which provide 'Introduction to Exporting' workshops and a toolkit to enable businesses to systematically develop their thinking around export opportunities, are examples of what could be established in WA.

Drive a more efficient and competitive training system

- The State Government must make the Vocational Education and Training (VET) system more efficient and competitive. The system should be driven by the informed choices of students and employers, with the flexibility to deliver a broad suite of training options. To this end, the State Government should:
 - Allow private providers of publicly supported VET courses to determine their own prices.
 - Ensure students can access clear information on the pricing and quality of courses to support their decisions.
 - Require the Department of Training and Workforce Development and TAFEs to have a simple 'front door' process for businesses, not-for-profits and private VET providers to develop VET training courses and programs that meet their specific needs.
 - Ensure the public education system has infrastructure to deliver effective career development activities. This should include an evidence-based career development policy at a state level, and at every school, a clear career development strategy, a member of staff designated as the school's career leader, and a program to facilitate engagement with local industry. Given the influence parents and guardians have on young people's career decisions, any career development strategy should also inform parents and guardians about future career opportunities and industry identified skill gaps.
- To enable community service providers to build their workforce's capability, the State Government should build into the cost modelling and business rules for the pricing of community services procurement an amount for training and professional development.

Continue to turbocharge red-tape reduction

- To ensure red-tape reduction continues to be turbocharged, the State Government must commit to an implementation timetable for the red-tape reforms announced to date and regularly publicly report on progress. The Treasurer should have responsibility for driving continuous improvement of regulation, to raise the priority given to improving regulation in Cabinet and Parliament and help create a culture across government of continuous improvement.
- To increase agencies' accountability for responding to red-tape issues raised by businesses, Streamline WA in conjunction with the relevant regulatory agency should be required to contact individual businesses that make submissions about red-tape to discuss the issue and resolve it.

- The performance reporting that will be required of approvals agencies under the State Government's red-tape reforms should be bolstered by requiring them to also:
 - Report frequently to Streamline WA on their progress meeting the targets and timelines agreed with their Minister.
 - Publish information about the number of complaints they receive from businesses about red tape, and the timeframes taken to resolve complaints.
- To propel innovation and investment in emerging technologies, the State Government should work with industry to develop a regulatory sandbox pilot project. Proposed steps include:
 - Engage with industry to identify key technologies and sectors that would benefit from a regulatory sandbox.
 - Co-design with industry a pilot project for a specific technology and / or sector.
 - Use learnings from the pilot project to develop a broader regulatory sandbox framework in consultation with industry and the community.

CCIWA is well-placed to facilitate the engagement with industry that will be required to progress regulatory sandboxes in WA.

Develop smart policy to support the industries of the future

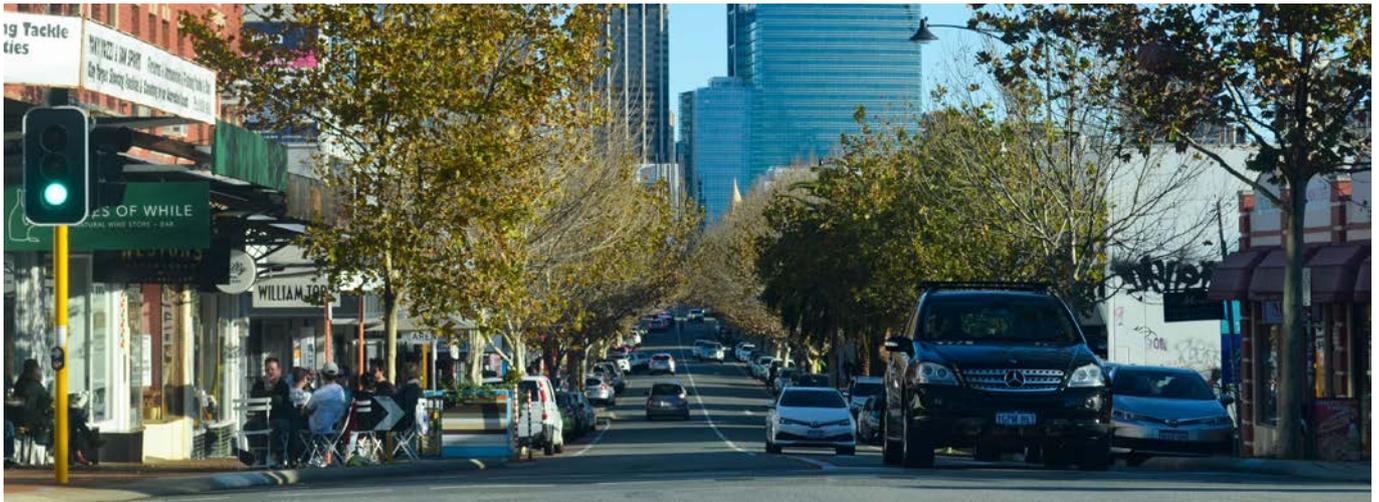
- The State Government should establish an overarching manufacturing Industry 4.0 strategy. The focus of the strategy should be on accelerating the adoption of Industry 4.0 technologies. It should demonstrate the ongoing relevance of the manufacturing industry and provide an overview of the value proposition for businesses to adopt Industry 4.0 technologies by quantifying the benefits and return on investment. As part of this work, the State Government should – in partnership with industry:
 - Educate itself on aspects of Industry 4.0 and help to inform the business community of the opportunities provided by Industry 4.0. The State Government should engage an external expert to provide these services on a commercial basis.
 - Develop an online portal that consolidates information on government incentives and programs to adopt new technologies. This consolidated view would help to identify any gaps in the support system that need to be addressed.
 - Based on the above work, consider the need for financial support for the uptake of Industry 4.0 technologies and processes, but in a tightly targeted way under strict conditions: financial support should only be provided where there are spillover benefits for other industries, those benefits outweigh the cost to the budget, and the investment would not have otherwise occurred.

Simplify the industrial relations system for small businesses and not for profits

- To generate cost savings for the WA Budget and reduce confusion amongst private and not-for-profit sector employees and employers about their employment rights, the State Government should refer its residual industrial relations powers regulating private and not-for-profit sector workplaces to the Commonwealth.
- Absent the referral of Western Australia's residual industrial relations powers regulating private and not-for-profit sector workplaces to the Commonwealth, the state industrial relations system should harmonise with Commonwealth laws to deliver an efficient, consistent and competitive business environment.

Ensure businesses have access to globally competitive infrastructure

- CCIWA welcomes Infrastructure WA developing the State's first 20-year infrastructure strategy. We have long called for a better infrastructure planning framework to guide infrastructure investment in the State. As a priority, the Strategy should consider ways to engage the private sector more in financing, designing, building, operating and maintaining infrastructure.
- In terms of infrastructure proposals currently under consideration, we recognise that Fremantle Port, albeit significantly below capacity today, may not sustain WA's container trade beyond the next 20 years. It is therefore a prudent step from the State Government to do some preliminary planning work on such an important issue. Given we are currently in one of the most uncertain periods of our economic history, the Westport Taskforce must continue to update its forecasts for future container trade. It must evaluate potential costs of trade for the business community as part of developing a business case and take a cautious approach to future decision making on the project.



- In terms of immediate infrastructure needs, MainRoads, Western Power, DevelopmentWA, the Department of Jobs, Tourism, Science & Innovation and local government should work with industry to identify parts of the High Wide Load road corridor network where enhanced functionality is needed and prioritise addressing these bottlenecks. Enhancements would vastly improve efficiency of the State’s road freight network.

Ensure local government charges do not disadvantage WA businesses

- CCIWA acknowledges the Local Government Review Panel’s recently released final report on a new Local Government Act, which briefly considers rates, fees and charges. However, to address the business community’s concerns about the effectiveness, efficiency and sustainability of local government’s functions and finances, we would like to see a more thorough and transparent consideration of the issues and options to solve them. The Economic Regulation Authority review recommended by the Local Government Review Panel should therefore be broader, and consider:
 - The functions local governments are currently undertaking, including their basic statutory responsibilities, discretionary activities and functions the State Government requires them to perform.
 - The mechanisms that could be put in place to ensure local governments operate and invest efficiently, and that only efficient expenditure is passed on to businesses and households in rates, fees and charges.
- CCIWA is a passionate believer in the value that art provides the economy and broader community. While we acknowledge the role for public funding of the arts sector, local governments’ Per Cent for Art Schemes burden businesses seeking to invest in our economy with responsibility for funding the arts sector. Local government Per Cent for Art Schemes should be scrapped, and the arts should be funded from general revenues instead.

Keep an eye to fiscal repair and budget sustainability

- To strike the right balance between fiscal sustainability and supporting the economy through this difficult period, the State Government should:
 - Continue to strictly enforce the public sector wages policy.
 - Examine further State-owned assets to determine if they would be better placed in private ownership to provide improved benefits to consumers and the WA community. The approach taken to the Landgate transaction could be a model for examining similar assets within Government. The Western Power transmission network and Utah Point Bulk Handling Facility are other options that the State Government should consider.
 - Not impose new revenue measures to achieve its financial objectives, including establishing new, or increasing existing, taxes.
 - Continue identifying opportunities to implement the recommendations of the Service Priority Review and Langouant Inquiry as a matter of priority. This should include accelerating implementation of Service WA.
 - Develop a policy and implementation strategy for using innovative financial instruments to invest in achieving social outcomes.



Push for fundamental reform of our tax system

Western Australia needs an efficient and competitive tax system to attract investment, create jobs and grow our economy.

Recommendations

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 - o Exploring the options of issuing notices of assessment electronically, developing online portals, and for taxes such as land tax and transfer duty, rationalising the number of brackets and rates.

We commend the State Government for raising the payroll tax threshold from \$850,000 to \$1,000,000. It is the most important decision the State Government has taken to boost the economy because it benefits every WA industry evenly, helping to diversify the economy.

Tax relief measures such as these are the best mechanism to stimulate the economy. The RBA has implored state governments to stimulate their economies more. Rather than more infrastructure spending, which runs the risk of creating capacity and pricing issues, the better approach is tax relief, which also helps other areas of the economy to recover.

Now is an opportune time to examine the State's tax system to identify generational reforms that would ensure Western Australia has the most efficient and competitive tax system possible.

Given the challenge the economy will face as it embarks on the recovery from the COVID-19 crisis, tax reform needs to be a high priority for all levels of government. Creating a more competitive tax environment is the most effective way to attract more investment to WA. If business investment were to increase by just one percentage point in each of the next three years, the WA economy would be around \$1.5 billion larger — approximately \$1,400 per household.

Work with the Commonwealth Government to get the tax mix right

For too long the task of meaningful tax reform has been deferred by governments, despite plenty of reviews, ideas and opinions on what needs to be done.

It is imperative that WA has a strong view on these matters, and that it recognises the importance of a globally competitive tax system, so that we are not left behind.



The New South Wales Government has recently released a draft report reviewing federal financial relations and setting out a comprehensive tax reform agenda. Victoria has also backed the need for comprehensive tax reform.

WA's economy has been built on foreign investment, and it is the most trade exposed of any jurisdiction in the country. As such it is even more important for us to have a globally competitive tax system.

National Cabinet provides the perfect vehicle to progress such generational reform. The Council of Federal Financial Relations also has an important role to play in resolving what can be done to reduce the impact of inefficient taxes that impede business activity, such as payroll taxes.

Transition away from payroll tax

Payroll tax reduces jobs in Western Australia in at least two ways: (1) it makes employing people more expensive; and (2) it increases the cost base for Western Australian businesses, reducing our competitive advantage and stifling investment. The evidence is also clear that payroll tax reduces wages.

As the WA Treasurer argued at a CCIWA Business Breakfast earlier this year, COVID-19 may be the crisis

required to finally be rid of payroll tax, and in so doing bolster wages.

In addition to increasing the demand for workers, reducing payroll tax would bolster incentives for businesses to invest in their workforces. The productivity and wages of workers in Western Australia would then be underpinned and driven higher by two powerful forces: the increased demand and investment in workers' skills; and an expected increase in investment in automation technology.

At the same time, payroll tax raises between \$3 - 4 billion in revenue for the State Government each year, representing around 24 per cent of total state tax and royalty income.

As such, fundamental reform of the tax system is needed to identify replacement revenue sources that do not come at the expense of jobs.

In particular, GST — broadening the base and / or raising the level — needs to be part of the tax reform conversation.

Most countries around the world have recognised that GST-like taxes need to be the workhorse in raising revenue for society. Such broad-based taxes have allowed these countries to reduce taxes that harm economic growth, and provide a sustainable source of revenue

to fund the provision of services that benefit the whole community, including aged care, mental health support and education.

Equity is an important principle when considering the GST and tax reform. However, equity is achieved through providing a social safety net and via the income tax system.

If the GST base was broadened and / or its level raised National Cabinet would need to consider how any additional GST revenues are distributed among the States, such as whether the current redistribution formula applies or whether the revenue is allocated on a per capita basis.

Transition from stamp duties to a broad-based land tax

The benefits from shifting away from stamp duty would be significant.

It would better enable our cities and town centres to evolve in the wake of COVID-19. With more people working from home in the post-COVID world, there will be less demand for office space, creating an opportunity for new residential and commercial spaces to open and in so doing forming more dynamic

and inviting places for people to visit. We know this is important for influencing the decisions of global businesses on where to locate their regional headquarters.

Reform would also make it easier for people to move near jobs, family and schools, or to downsize later in life. With less commuting, there are benefits for the environment, and for business there are benefits in having a more mobile workforce. In particular, there would be significant benefits for businesses with regional operations, and the regional towns that support them, helping to address some of the concerns that currently exist with FIFO workforces.

There are also important social benefits to reform – stamp duty is a very inequitable tax, punishing those people who need to move more throughout life. Indeed, reform would make it easier for people from poorer backgrounds to move into higher socio-economic areas, perhaps the most important factor in helping families to break out of generational disadvantage.

Finally, a greater reliance on land taxes would provide a more stable revenue source for government. And the increased housing turnover

would stimulate household consumption typically associated with people moving (such as furniture and renovations).

But the transitional challenges are significant, and as such this reform will only be achieved with bipartisan support across an extended period to reduce negative impacts on a section of property owners. CCIWA understands how difficult this change would be. Reform will take hard work and rely on securing community support. To that end, CCIWA is modelling different approaches to achieve change and their distributional impacts.

It is critical that the State Government keep an open mind to potential pathways to a transition away from stamp duty, given the potential economic benefits available. The most important thing that State Government can do now is to signal to the community that it will consider significant tax reform to help our State through and beyond the recovery phase.

Immediate changes that would make our tax system more competitive

Western Australia's tax system should be administratively simple and efficient, to ensure the costs of complying with tax obligations do not put Western Australian businesses at a competitive disadvantage.

To this end, CCIWA has identified a package of tax reforms that can be progressed in the short term.

Remove transfer duty on non-land business assets

Around a quarter of respondents to CCIWA's COVID-19 Business Impacts Survey identified that they will undertake capital investment to adapt and recover from the current pandemic. This will require finance.

Yet businesses were finding it difficult to attract finance before the

Supporting residential construction for the long term

There have been calls for the immediate removal of stamp duty and land tax to boost residential construction.

Removing these revenue sources is not a feasible policy option.

Rather, the best and most sustainable approach to boosting residential construction is to address the fundamental issues confronting the sector: (1) a lack of strong population growth; (2) planning regulations that serve only the most patient capital; and (3) a tax system across all States of Australia that disincentivises property transactions and the movement of workers.

In addition to the boost that would come from transitioning to a broad-based land tax, CCIWA has outlined in this paper options for the State Government to seize a greater share of the world's skilled workers. There is a significant opportunity to leverage off Western Australia's capable handling of the COVID crisis. We expand on this in the section on reintegrating Western Australia into the global economy on page 18.

As businesses recover from the COVID-19 pandemic, it is important they are free to spend as much time as possible identifying investment opportunities and creating jobs.

COVID-19 pandemic. According to the March edition of the WA Super – CCIWA Business Confidence Survey, close to 60 per cent of businesses found it more difficult to access finance from banks over the past 12 months.

While the Commonwealth Government has introduced a loan guarantee that will be available until 30 June 2021, the funding environment for businesses more generally is expected to remain difficult.

The sale of non-land business assets such as goodwill, licences and intellectual property are subject to transfer duty in WA. This creates a barrier to the purchase or restructuring of a business, for example from a trust to a company. Such restructures are important, as company structures more easily allow SMEs to attract equity funding. In an environment where small businesses are finding it difficult to secure finance, any measure that makes this more difficult reduces the competitiveness of the WA economy and will hamper the recovery from the COVID-19 pandemic.

CCIWA has long called for the abolition of this inefficient tax.

It was originally slated to be abolished as part of the 1999 GST Agreement between the Commonwealth and the States. Legislation was originally passed in WA to abolish the tax on 1 July 2010, before it was delayed to 2013. It was delayed again with the passage of the Duties Legislation Amendment Bill 2013.

Transfer duty on non-real business assets is the only State tax identified in the GST Agreement that has yet to be abolished in WA. Most other

States have abolished the tax.

Given that the duty is likely to be preventing company restructures from occurring, it is expected that abolishing this duty would have little impact on revenue.

Commit to allowing the progressive payroll tax scale to expire

In the 2017-18 budget the State Government introduced a progressive payroll tax scale. From 1 July 2018 until 30 June 2023, employers with an Australian annual taxable payroll exceeding \$100 million face a marginal tax rate of 6 per cent (up from the current 5.5 per cent) on the part of their payroll above \$100 million but less than or equal to \$1.5 billion, and a marginal tax rate of 6.5 per cent on the part of their payroll exceeding \$1.5 billion.

The 2020-21 Budget will be the first budget with forward estimates beyond 30 June 2023. CCIWA therefore looks forward to the Budget confirming that the progressive scale will not be assumed to apply beyond the originally proposed cut-off date. This would provide certainty to businesses, including any businesses considering relocating to or investing in Western Australia.

Reduce the burden of tax compliance

As businesses recover from the COVID-19 pandemic, it is important they are free to spend as much time as possible identifying investment opportunities and creating jobs.

One way to free up more time for businesses is to reduce the frequency with which they need to lodge payroll tax returns. The process of lodging returns is a significant burden, especially for

SMEs. These costs are compounded for businesses required to lodge monthly. Reflecting this, the Payroll Tax Assessment Act allows businesses to lodge annually if their expected annual payroll tax liability is less than \$20,000, and quarterly if their liability is between \$20,000 and \$100,000.

The \$100,000 threshold is reached for a business with payrolls of around \$2,500,000. While this would appear a high bar, given that total wages include employer funded superannuation benefits, fringe benefits and eligible termination payments, this threshold is easily met by many medium-sized businesses.

The NSW Government has adjusted its thresholds for determining how frequently businesses need to lodge returns. Businesses in NSW can now lodge their returns quarterly if their estimated liability is between \$20,000 and \$150,000.

WA businesses should have at least the same arrangements as those in NSW: they should be allowed to lodge returns quarterly if their liability is between \$20,000 and \$150,000.

Beyond this, the State Government is encouraged to examine further ways to simplify the state tax system. The NSW Government, for example, has recently enacted several small changes, such as updating materials to support a greater focus on early engagement and education, as well as improvements to audit processes. The Government should consider reforms like this, including by exploring the option to issue notices of assessment electronically, develop online portals, and for taxes such as land tax and transfer duty, rationalising the number of brackets and rates.



Abolish regulations that tell retail stores what they can sell when

Retail trading regulations make it harder for businesses to create jobs.

Recommendations

- To give businesses flexibility to earn as much revenue and employ as many people as they can, the State Government should abolish regulations that tell retail stores what they can sell when:
 - Remove column 2 in section 7 of the Retail Trading Hours regulations, which stipulates what a business can sell when.
 - Align Saturday trading to weekday trading by extending Saturday trading hours four hours in the evening, taking allowed trading hours from the current 8am to 5pm, to 8am to 9pm.
 - Open up Sunday morning trading by extending allowed trading hours three hours in the morning, taking allowed trading hours from the current 11am to 5pm, to 8am to 5pm.
 - Formally enact Public Holiday trading extensions to reflect the standard extension that is currently applied. This would entail extending allowed trading hours on Public Holidays by three hours in the morning and one hour in the evening, taking allowed trading hours from the current 11am to 5pm to the standard precedent of 8am to 6pm.

WA's retail shopping restrictions are out of step with the modern world. Not only are these regulations restrictive, they are complex, with allowed opening hours varying by shop category and location. 'General retail shops' have outdated restrictions on what they can sell. A domestic development shop for example can sell light bulbs but not light fittings, outdoor lighting but not indoor lighting, wood-fire heaters but not gas heaters, indoor TV antennae but not outdoor TV aerials, and kitchen sinks but not dishwashers. Regulations stipulate that souvenir shops can sell souvenirs "projecting the flavour of the pioneering era", and that newsagencies can sell educational toys, but not computer games that are mains operated; replacement items of sporting equipment, but only if they are "small".

Even more bizarrely, shops can open any time they wish north of the 26th parallel (around Shark Bay). And

regional centres can modify their shopping hours with the permission of the relevant Minister. The new Costco store near the airport can set its own opening hours because it is on Commonwealth land.

The current crisis has created additional imperatives for retail trading reform. COVID-19 is going to leave the State with an unemployment scarring, so it is critical we use all available options to create jobs. Businesses need as much support and flexibility to earn as much revenue as they can, and young people in particular need as many opportunities as possible to work.

At the same time, the opening of Costco at Perth Airport is dragging shoppers away from their local shopping precinct, hurting small cafes, restaurants, newsagents and general retail outlets. And the acceleration to online retailing will only grow in the current climate.

We need to provide consumers with as much reason as possible to visit their local shopping centre or precinct. Increased foot traffic benefits smaller operators. We see this in states with more liberalised trading hours, such as Victoria, New South Wales and Tasmania — all states have more employing small retail and hospitality businesses per head of population than Western Australia. As such, the argument that retail trading reform would compromise small businesses simply does not stand up to scrutiny.

CCIWA proposes common sense reforms that represent a reasonable compromise from the two extreme sides of the debate.

First, the Government should abolish the part of the regulations that stipulate what a business can sell when. This would be achieved by removing column 2 in section 7 of the regulations. This would leave in the regulations the categories of retail shops but remove the outdated rules about the precise products those shops can sell when.

At the same time, the Government should undertake the following reforms to allowed trading hours.

- Align Saturday trading to weekday trading by extending Saturday trading hours four hours in the evening, taking allowed trading hours from the current 8am to 5pm, to 8am to 9pm.
- Open up Sunday morning trading by extending allowed trading hours three hours in the morning, taking allowed trading hours from the current 11am to 5pm, to 8am to 5pm.
- Formally enact Public Holiday trading extensions to reflect the standard extension that is currently applied. This would entail extending allowed

Retail trading hours reform would stimulate consumer spending and business confidence, aiding WA's long-term economic recovery.





trading hours on Public Holidays by three hours in the morning and one hour in the evening, taking allowed trading hours from the current 11am to 5pm to the standard precedent of 8am to 6pm.

The benefits of these relatively modest reforms would spread right throughout the community. The benefits include greater job opportunities for young Western Australians, increased retail turnover, greater convenience for busy families, and greater community engagement. A range of independent organisations have made these conclusions, including researchers at the Productivity Commission, the Review Panel for the Competition Policy Review, Curtin University, and the University of Western Australia.

CCIWA does not continue to prosecute the case for retail trading reform as a vanity project. There is sufficient independent evidence to show that the reform would deliver

real benefits to the WA community.

While reforming shopping restrictions would not be a panacea for the State's economic recovery, it would be pushing in the right direction. And given the reforms are easy to implement and have no costs attached to them, they represent a great opportunity for

the State Government to implement policy reform for the benefit of all Western Australians.

Western Australia needs to shake off its conservative viewpoint on retail trading hours, catch up with the rest of Australia, and implement retail trading reform. It is time for common sense to finally prevail.



The benefits of retail trading hours reform

First, retail trading reforms would create more work opportunities, especially for young Western Australians. The link between greater work opportunities and retail trading reform is the conclusion of several studies.¹ The Productivity Commission has observed that the increase in retail employment is large after the liberalisation of trading hours, and that:²

...further deregulation of trading hours is likely to benefit particularly the youngest and oldest age cohorts, first time job-seekers, and those with a preference for part-time or casual work.

Creating job opportunities for young people is more important now than ever: due to the economic fallout from COVID-19, around 30,000 young Western Australians have found themselves out of a job.

Second, reform would assist the struggling retail sector. A 2011 report³ developed out of the University of Western Australia highlighted that when Tasmania deregulated its trading hours in 2002, over the following few years it experienced 25 per cent growth in retail sales compared with an Australia-wide growth rate of 16 per cent. Similarly, after Victoria deregulated in 1996, retail sales grew faster there than any other State.

Importantly, the benefits of increased turnover would spread throughout the retail community, including small retailers like cafes and newsagencies in the vicinity of major tenants in shopping precincts. Reform would also allow bricks and mortar firms a better chance at surviving in the face of online retailing.

Deregulating retail trading hours is likely to benefit the youngest working age cohorts.

Third, the reforms would provide more flexibility and convenience for working families, especially single parents juggling a career with parenthood, and shift workers such as nurses, police and cleaners.

Fourth, there would be community benefits. With the rise of in-home entertainment services such as Netflix, there are more reasons than ever for people to stay at home.

There is a shift currently underway in the retail sector to transform traditional shopping precincts into 'living centres' - a community hub where people can shop, work, eat, see a doctor, go to the gym and have a child minded.

The redevelopments at Carousel, Whitfords and Belmont are examples, with modernised cinemas, playgrounds, licensed venues, alfresco areas, sustainable gardens and live music spaces. Simone De Been of Kalgoorlie Boulder CCI recently commented on the Council's decision to extend retail trading hours on Sunday, including Sunday morning:

"... we've got a more vibrant main street now on a Sunday ... Our community as a whole just loves it, especially because we're a mining town and we've got a lot of shift workers in town. So the community definitely love it.

One industry that it really did benefit was the tourism industry. Instead of people coming to Kalgoorlie and just driving through, and we're missing out on that spend, people are now staying in town because they can do their shopping on the Sunday. Go up the main street, have a look, have a coffee, something to eat and there's shops available."

Finally, implementing reforms now would go some way to helping the tourism sector recover from COVID-19 once our borders re-open. Tourists expect shopping convenience: Austrade has argued that visitors are likely to try to spend at times that may be considered 'after hours', and the Bankwest Curtin Economic Centre has found Chinese tourists want longer trading hours on Sunday.

1 Atkins, A. 2011, *Shop Trading Hours in Western Australia: A Research Report*, University of Western Australia. Productivity Commission 2011, *Economic Structure and Importance of the Australian Retail Industry*, Melbourne. Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Melbourne.

2 Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Melbourne, p. 6.

3 Atkins, A. 2011, *Shop Trading Hours in Western Australia: A Research Report*, University of Western Australia.



Reform the retail electricity market in the South West Interconnected System

Introducing competition would drive a sustainable reduction in energy costs for small and medium businesses.

Recommendations

- To drive energy costs for small businesses down in a sustainable way, the State Government should allow small businesses in the South West Interconnected System to choose their electricity retailer. The contestability threshold should be lowered to 20 megawatt hours of electricity per annum or a qualitative definition that ensures all non-residential consumers are contestable should be adopted.
- The State Government should remove the inefficient cross-subsidies currently used to support the Uniform Tariff Policy and fund the policy from general revenues instead.

Access to energy is essential infrastructure that every business relies on to function.

At the same time, energy costs make up a large component of businesses' operating costs. The implications of this were highlighted throughout the COVID-19 crisis. One of the biggest pain points for small businesses — and which the State Government moved quickly to address — was their ability to pay their electricity bills.

While the State Government has been rolling out energy reform to ensure reliable, secure and affordable access to energy, further reform beyond the current scope of the energy transformation taskforce is necessary to drive energy costs for small businesses down in a sustainable way.

Introduce competition between retailers for small business customers

Within the South West Interconnected System (SWIS), Synergy is granted a monopoly over customers consuming less than 50 megawatt hours per year. This pushes up electricity prices for small and medium businesses.

Lowering the contestability threshold so that businesses can choose their supplier would help drive down prices by promoting competition. Deregulation of the NSW electricity market in 2014 resulted in the average electricity bill of a residential customer falling by about 5 per cent in real terms over the following three

years.⁴ In New Zealand and Great Britain, where electricity markets were reformed in the 1990s, real electricity prices have fallen even more than this.⁵

Three quarters of businesses surveyed by CCIWA prior to the pandemic agreed that enhancing competition among energy providers to drive down power prices would help their business to invest and grow in the next five years. The reform would benefit businesses such as cafes, delis, restaurants, beauticians and small retail stores, many of which are still recovering from COVID-19 trading restrictions.

Another critical – yet often overlooked – benefit of expanding the number of contestable customers is it would encourage private sector investment in new generation assets and technologies. This is driven not just by the expanded customer base in and of itself, but also the greater ability for new investors to develop affordable wholesale hedging instruments.

The Government should lower the contestability threshold to 20 megawatt hours of electricity per annum or move to a qualitative definition that defines all non-residential customers as contestable. This would provide choice and price competition for small and medium businesses.

Fund uniform retail prices across regions from general revenues

The removal of cross subsidies

is crucial for the efficiency and transparency of electricity pricing.

The Tariff Equalisation Contribution (TEC) is levied on electricity customers in the SWIS to cross-subsidise the cost of electricity to customers in Horizon Power's regional and remote distribution areas. The TEC is intended to facilitate the Government's Uniform Tariff Policy so that all small-use Synergy and Horizon Power customers are charged the same rate.

However, the TEC distorts prices and imposes unnecessary costs on customers in the SWIS. The TEC has cost SWIS customers \$1.7 billion since 2008. SWIS customers are forecast to pay \$157 million in TEC contributions in 2020-21, with residential and business customers each to cover about half of this total cost.⁶

Equity is not achieved by low income households in Perth being burdened with higher electricity charges to subsidise someone's holiday home in Coral Bay.

Instead, the State Government should fund its Uniform Tariff Policy from general revenues.

4 IPART, *Review of the performance and competitiveness of the retail electricity market in NSW*, November 2017.

5 Based on data published by the NZ Minister of Economic Development and UK Department for Business, Energy and Industrial Strategy.

6 Western Power, 2018. *Appendix F.6, 2019-20 Price List Information – Amended proposed access arrangement*, <https://www.erawa.com.au/electricity/electricity-access/western-power-network/annual-price-lists-for-network-charges>



Fast-track WA's reintegration into the global economy

There is a significant opportunity for Western Australia to conduct a forward press into international markets.

Recommendations

- The State Government should execute a comprehensive and targeted strategy for filling the vacuum in global investment and trade markets. This strategy should include specific and practical initiatives. In particular, the State Government should partner with CCIWA to develop a WA Investment Portfolio Deal Book. The Deal Book would actively promote major investment opportunities to prospective foreign investors across a diverse range of WA industries, including healthcare, agribusiness, advanced manufacturing and tourism. The Strategy and Deal Book can be developed now.
- To address an expected decline in migration to Western Australia and associated reduction in the State's economic growth, the State Government should develop a strategy to grow our population. This should include reviewing all relevant State policy settings, including in relation to visa and tax policy.
- To facilitate Western Australian businesses' immediate diversification into alternative markets, the State Government should expand its efforts to support small and medium sized businesses seeking to diversify their import and / or export markets. The NSW Export Accelerator and Export Capability Programs, which provide 'Introduction to Exporting' workshops and a toolkit to enable businesses to systematically develop their thinking around export opportunities, are examples of what could be established in WA.

COVID-19 has disconnected countries and their economies from the global marketplace. The pandemic has also laid bare some of the risks inherent in global value chains, including the risk from having parts of those chains concentrated within a single geographic region.

With the current disruption, and the likely ongoing reticence of some countries to fully re-embrace global trade, there is a significant opportunity for Western Australia to conduct a forward press into international markets.

We are ultimately a trading economy. An aggressive push back into global markets would help to regain our footing in global markets, and potentially put Western Australia in an even stronger position within the world economy.

WA's management of COVID-19, both in respect of health and economic aspects, has sent a clear message to the world that its institutions have a better grasp than most on how to support the health of its people while still being able to foster a modern, complex economy. Should WA continue to manage the impacts in this way, this achievement will serve as rare gold dust for a global investment community seeking safe havens. The State Government should not underestimate the impact of these hygiene factors on businesses' decisions about where to locate.

This story extends beyond investment. It will also be the case that people with both capital and higher skills will be drawn to WA. This would serve not only to support stronger residential construction, but to deepen the State's skills base for stronger economic growth.

We should seek to leverage the opportunities our management of COVID-19 has presented us with by conducting a strong forward press back into the global economy. Now is the time for the State Government

to start effectively marketing our State overseas as an important part of supporting this global push. We have a window of opportunity — if we do not act fast, our current competitive advantage will dissipate.

Elevate Western Australia

As noted, some countries will be reticent to re-engage with global markets once COVID 19 begins to fade. There is a significant opportunity for Western Australia to fill this vacuum.

Western Australia needs a global re-engagement strategy to frame our State's overall goals for trade and investment. This strategy can be developed relatively quickly — it requires no gloss. Without such a strategy, our efforts to re-integrate into the global economy will be reactive and opportunistic, and we will fall behind countries that take the initiative.

Sitting behind this strategy should be specific and practical initiatives.

- Clear strategies for making hard presses into key investment markets, such as the United States, UK, mainland Europe, Singapore, China, India, Hong Kong and Canada.
- Specific trade initiatives at the sectoral level, such as fisheries, agribusiness, mining resources and METS, energy and tourism. In particular, consideration should be given to WA's positioning as an investment hub and trading platform in the context of addressing global concerns and market gaps in food and energy security for the populations of emerging economies.
- For international education, a pilot project for returning international students. Recent surveys have found the Australian, New Zealand and Canadian Governments' handling of the coronavirus have made them more attractive

study destinations,⁷ and South Australia has already launched a pilot with 300 overseas students to commence in September. If Western Australia is slow to move, we risk losing the opportunity to gain significant market share and handing that opportunity to other states.

- Measures to strengthen the value proposition for investing in WA, including the development of a WA Investment Portfolio Deal Book. The WA Government should partner with an organisation such as CCIWA to develop the Deal Book.
- Identifying new global supply chains to drive our mining resources, infrastructure and construction and advanced manufacturing sectors.
- Approaches to linking Western Australian businesses into key innovation ecosystems (such as energy, METS and Agri services) and capital markets.
- Recalibrating the resourcing of overseas trade offices to see how they can leverage existing resources.
- Ways to enhance the government's digital presence in key markets, improving the facilitation of businesses into bilateral supply chains and realising awareness of opportunities.

CCIWA welcomes the priority given to developing some of these initiatives in the State's Recovery Plan and looks forward to working constructively with the State Government to develop the detail of the initiatives.

In particular, CCIWA is well positioned to assist in the process of quickly identifying and linking businesses across sectors with new trade opportunities. There is currently a low level of international awareness about medium-to-large scale commercial investment

7 Navitas, 'COVID-19 is changing the fortunes of international education destinations – Part 1', 2020.

projects in Western Australia. Partnering with CCIWA to develop a WA Investment Portfolio Deal Book would promote local investment opportunities to prospective foreign investors and help bridge the gap between investment readiness and attraction. Attracting more foreign direct investment into both established and emerging industries will bolster Western Australia's economic recovery, help to diversify the domestic economy and improve the financial stability of local businesses.

Develop a strategy for growing our population

CCIWA considers that it is timely to develop a strategy to grow the State's population.

Population growth is expected to slow to its lowest level since 1916, with net international migration falling by more than 85 per cent across 2019-20 and 2020-21. If we do not implement actions to address this decline, we will see an associated reduction in the State's economic growth.

Economic growth relies on the three Ps: population, productivity and participation. A rise in population contributes to the economy via increased consumption. In WA, given the highly cyclical nature of our economy, businesses also rely on interstate and international migration to build and maintain their skilled workforce. An increase in productivity means we get more economic output from what businesses and workers put into the economy. Increased participation in the labour market spreads the economic gains more broadly among the community.

Failing to take action to increase population growth will mean we are relying more heavily on growing local businesses' and workers' productivity to drive economic growth. This is particularly the case in the context of an ageing population, given the effects this will have on labour market participation rates.

Drawing people with unique qualities into WA from other states and around the globe also adds to the diversity and vibrancy of our community. We should seek to leverage the opportunities our management of COVID-19 has presented us with to attract these people.

Prior to COVID-19, a combination of Federal and State Government policy decisions was dampening international migration into WA. This includes the removal of the Federal Government's 457 visa stream and the State Government's reduction of occupations on the WA Skilled Migration List from 178 to 18.

CCIWA recommends that the State Government develop a strategy to grow the State's population, so we are well positioned to attract people to live in our State once the current crisis passes. When developing the Strategy, the State Government should review all relevant State policy settings, including in relation to visa and tax policy.

Support immediate diversification initiatives

Around 11 per cent of respondents to the CCIWA COVID-19 Business Impacts Survey indicated they will seek to diversify their import and/or export markets in response to COVID-19. The sectors with the highest portion of respondents indicating they would pursue this strategy include:

- Mining (26 per cent)
- Manufacturing (22 per cent)
- Agriculture, forestry and fishing (21 per cent)
- Construction (15 per cent).

Of the WA businesses that indicated they would seek to diversify, 88 per cent are small to medium sized enterprises (SMEs).

Expanding into different export markets and developing additional or alternative global supply chains is a significant undertaking. It generally involves the following three steps.

- Market research. Detailed market research to identify alternative export and import markets. This will include a detailed assessment of market-specific demand growth, competition and trade barriers.
- Market preparedness. Work to help businesses enter new markets and identify new global supply chains, including development of targeted marketing campaigns, cultural literacy, and compliance with relevant standards and regulations.
- Market engagement. Participation in expos, trade missions, workshops, webinars and business-to-business meeting programs.

For an individual business to implement a strategy like this would be a significant and time-consuming investment, and beyond the reach of many WA SMEs. The State Government should therefore ensure that current grant programs and industry development funds are effective and appropriately targeted to help facilitate this important work.

The WA Government could expand its efforts in this area. Various other State Governments have executed initiatives in recent years that could be applied here. For example, the NSW Export Accelerator and Export Capability Programs provide 'Introduction to Exporting' workshops and a toolkit to enable businesses to systematically develop their thinking around export opportunities.

The State Government should engage an external expert to provide these services on a commercial basis.

Taking these actions would facilitate the transfer of market intelligence to local firms and create networking opportunities between local and foreign businesses, de-risking WA businesses' efforts to diversify into new markets and helping the WA Government to meet its Diversify WA and Asian Engagement Strategies.



Drive a more efficient and competitive training system

A more agile and responsive training system would enable businesses and not-for-profits to access the skills they need, when they need them.

Recommendations

- The State Government must make the Vocational Education and Training (VET) system more efficient and competitive. The system should be driven by the informed choices of students and employers, with the flexibility to deliver a broad suite of training options. To this end, the State Government should:
 - Allow private providers of publicly supported VET courses to determine their own prices.
 - Ensure students can access clear information on the pricing and quality of courses to support their decisions.
 - Require the Department of Training and Workforce Development and TAFEs to have a simple ‘front door’ process for businesses, not-for-profits and private VET providers to develop VET training courses and programs that meet their specific needs.
 - Ensure the public education system has infrastructure to deliver effective career development activities. This should include an evidence-based career development policy at a state level, and at every school, a clear career development strategy, a member of staff designated as the school’s career leader, and a program to facilitate engagement with local industry. Given the influence parents and guardians have on young people’s career decisions, any career development strategy should also inform parents and guardians about future career opportunities and industry identified skill gaps.
- To enable community service providers to build their workforce’s capability, the State Government should build into the cost modelling and business rules for the pricing of community services procurement an amount for training and professional development.



In the wake of COVID-19 — and in light of the State Government's focus on increasing local content in procurement — an effective skills and training system is more important than ever. As noted above, population growth is expected to slow to its lowest level since 1916, with net international migration falling by more than 85 per cent across 2019-20 and 2020-21. This means we can no longer rely on migration for the availability of skilled workers and growing our economy. Growth must come from making the most of our existing workforce.

We expect the economic fall-out from the pandemic to include persistently high levels of unemployment and under employment. Yet at the same time, some businesses are worried they will struggle to access appropriately skilled people in the coming months and years.

Clearly the current crisis has created a significant dislocation between businesses and workers. Without access to a pipeline of skilled workers, local businesses will struggle to evolve and capitalise on new opportunities. This will make WA's economic recovery slower and weaker.

The State Government's recently released training review recommends a range of immediate and practical measures aimed at ensuring businesses and workers can access the skills they need to adapt in the face of COVID-19. These include broadening the Enterprise Training Programme to support a wider range of industries to upskill existing workers, exploring new models of apprenticeships to better meet industry needs, and enabling digital and technological skills in the workforce. CCIWA welcomes the State Government's commitment to

take the recommendations forward.

Contrary to the important role of the private sector in the delivery of skills and training, the review unduly positions TAFE as the default priority provider in a competitive delivery market. This is despite TAFEs being unable in many instances to deliver training that meets the needs of business and students. For example, TAFE has struggled to rapidly shift its delivery of training to online platforms. Yet private training providers have had no such issues. Amana Living for example has rapidly increased its online capacity to deliver the State Government's free COVID-19 Direct Care Skill set.

While the delivery of training in the health and community sector is more attractive to non-TAFE providers, due to the relatively lower capital requirements of training delivery, there are also options to enhance competition in training for more capital-intensive courses.

The State Government had prime opportunity to trial this approach with the proposed Pilbara mining specialist training centre. The centre could have been created as a common user training facility, developed in conjunction with resource businesses and supported by an ownership structure that created a level playing field for providers (including TAFE) wishing to use the facility, to meet their clients' training needs. Rather the State Government has chosen to place TAFE at the front and centre of the proposed initiative. This positions TAFE at a competitive advantage as the owner and operator of the centre, directly undermining the ability of other providers to effectively compete and further removing incentives for TAFE to rapidly respond to the needs of industry.

Further entrenching TAFE as the default training provider and reducing opportunities for private training providers to deliver timely and innovative training courses reduces competition and moves the VET system further away from an open, efficient and competitive market for training that is responsive to the needs of business and students.

Don't step back from a market-based approach to training delivery

The VET system must be made more open, efficient and competitive, driven by the informed choices of students and employers, with the flexibility to deliver a broad suite of training options.

Make the State's training system more agile and responsive

CCIWA receives consistent feedback from our members that the State's training system is not creating workers with skills that meet their needs. Many businesses are particularly frustrated with the inability of TAFE providers to adapt and respond to the evolving needs of industry.

Businesses and not-for-profits report problems with both the quality and delivery of existing training courses, and a lack of agility in developing new training products.

Employers say it takes 12-18 months to develop a new training product through the state system which, while more responsive and streamlined than the national system, is still too long.

A large number of regional business surveyed (69 per cent) by the

Regional Chambers of Commerce and Industry WA say they cannot access the training they require in their region. Businesses operating in the regions also say that limiting training delivery to in-person modes and in blocks is problematic. Businesses would prefer to have the option of regular training attendance over the course of a semester, to reduce the length of staff absences and productivity impacts.

While all training providers have some scope within training packages to adapt their products and how they deliver them to meet employers' needs, organisations report that training providers are reluctant to alter their offerings. This is likely to be driven by the fixed fee structure of publicly subsidised VET training — there is little financial incentive for providers to alter the structure of qualifications to better align with business needs.

The fees for WA's publicly funded VET qualifications that are delivered by private providers are currently determined by the State Government. While some argue this approach keeps fees low, it leaves little incentive for providers to enhance the quality of their courses.

This has fostered a culture focused on compliance and volume rather than quality student outcomes.

The Government should instead let private course providers determine the price of publicly subsidised VET qualifications.

This would not be expected to lead to a material increase in prices. VET training providers offering publicly





to full time work and they would have 17 changes in employer across five different careers. Young people reported that limited levels of work experience, a lack of appropriate education and a lack of career management skills were major barriers to gaining full time employment.

COVID-19 has further sapped the confidence of young people looking to enter the workforce. At the same time, while there are less jobs available, many businesses are actively recruiting, and some are experiencing skill shortages.

Good career advice is needed now more than ever. Enhancing young people's career management skills and minimising the transition time from study to work will be vital for increasing productivity and reducing youth unemployment.

While some 15-year olds have a clear idea of what they want to do after school, their career aspirations are often poorly aligned to the demands of the labour market. A recent OECD survey found that around 40 percent of Australian 15-year olds aspire to 10 highly popular career paths, including becoming a doctor, teacher or lawyer. However critical and in demand jobs, such as aged care support workers, counsellors, or geologists, are often overlooked.

subsidised qualifications must hold a contract with the government, as well as comply with a range of minimum standards set out by state and commonwealth regulators. This provides government a wide range of tools to regulate the market without having to mandate the price of qualifications.

To ensure maximum impact of shifting to a provider determined pricing model the State Government should also ensure current and prospective students have access to clear and meaningful information on the quality and price of individual courses delivered by providers.

Irrespective of whether the State Government reforms the approach to pricing, the Department of Training and Workforce Development and TAFEs should have a 'front door' or clear process for business, not-for profits and private VET providers to develop training courses and programs. Any front door approach should seek to:

- Better identify what industry's views of current and future skill shortages are so that training providers (and high schools) can provide and encourage the uptake of appropriate courses to meet these needs.

- Draw on the skills and knowledge of industry by providing the space for guest lecturers and playing industry-developed videos and the like during classroom interactions.
- Reposition training providers' delivery style to better meet industry needs.
- Enable training providers to deliver to regional areas and communities where industry exists.

Help young people to make good career decisions

Prior to COVID-19, it took a young person over two and a half years to transition from full time study

Building good business relationships supports better career advice

The Enterprise Advisor Network is a career development approach pioneered in the United Kingdom that embeds a dedicated volunteer from industry to directly engage with a single school to assist in developing career strategies for the school, delivering careers activities to students and facilitating connections between the school and other local employers.

Involving local business leaders in career development within a school community ensures that parents, teachers and students can gain a firsthand understanding of the changing nature of work and the needs of businesses in the local community.

There is also a strong connection between the development of career strategies, a student's secondary school subject choices and subsequent school performance. In short, good careers advice means good school performance.

To ensure students are best positioned to manage their own careers the State Government needs to ensure the appropriate infrastructure is in place to underpin the delivery of career development activities in schools. This includes:

- A clear and evidence-based career development policy at a departmental level that covers career development approaches across an individual's entire schooling journey. This will help guide school leaders on best practice approaches to career development activities.
- Ensuring every school has:
 - A clear career development strategy including reportable metrics to underpin locally relevant and fit for purpose career development activities.
 - A member of staff designated as the school's career leader to act as a front door for students, teachers, parents and business when seeking career advice, support or general information.
 - A dedicated program to facilitate ongoing engagement with businesses within the school's local area.

Given that parents and guardians of young people are by far the major influence on a young person's career decisions, any career development strategy should also inform parents and guardians about future career opportunities and industry

identified skill gaps. This could be through career advisers at schools or additional supportive resources, such as a central website.

These measures would require little funding and would ultimately lead to students being empowered to make better career decisions, reducing the likelihood of future skills shortages.

Support not-for-profits to build their workforce's capacity

One sector particularly challenged in attracting and retaining a skilled workforce is the health and community services sector. Demand for skilled workers in this sector is being driven by the growing demand for services, the adoption of contemporary models of care, greater consumer expectations and the transition to market-oriented business models.

The landscape demands skillsets that can be transferred across occupations and a training system that is agile and responsive to the needs of the industry. In this regard, CCIWA's recommendations above will assist to create a more responsive state training system.

A barrier to developing skills in the community services sector is that client facing support workers cannot be offline for training without another staff member being available to back-fill them. However, service providers are not funded to back-fill the staff member that goes on training. This creates a disincentive for organisations to upskill their workforce.

This is one reason why the Enterprise Training Program has not been taken up to the full extent possible in the health and community services sector.

To address this, governments should build into the cost modelling and business rules for the pricing of community services procurement a proportion for training and professional development to enable service providers to back-fill staff.

This is particularly important given the State Government recently announced as part of its review of skills, training and workforce development that it will be embedding training obligations contractually when it purchases services in the care economy.⁸



⁸ WA State Government, *State Government Response: review of skills, training and workforce development*, July 2020.



Continue to turbocharge red-tape reduction

Reducing red-tape costs taxpayers next to nothing yet makes a real difference to business and delivers major results for the economy.

Recommendations

- To ensure red-tape reduction continues to be turbocharged, the State Government must commit to an implementation timetable for the red-tape reforms announced to date and regularly publicly report on progress. The Treasurer should have responsibility for driving continuous improvement of regulation, to raise the priority given to improving regulation in Cabinet and Parliament and help create a culture across government of continuous improvement.
- To increase agencies' accountability for responding to red-tape issues raised by businesses, Streamline WA in conjunction with the relevant regulatory agency should be required to contact individual businesses that make submissions about red-tape to discuss the issue and resolve it.
- The performance reporting that will be required of approvals agencies under the State Government's red-tape reforms should be bolstered by requiring them to also:
 - Report frequently to Streamline WA on their progress meeting the targets and timelines agreed with their Minister.
 - Publish information about the number of complaints they receive from businesses about red tape, and the timeframes taken to resolve complaints.
- To propel innovation and investment in emerging technologies, the State Government should work with industry to develop a regulatory sandbox pilot project. Proposed steps include:
 - Engage with industry to identify key technologies and sectors that would benefit from a regulatory sandbox.
 - Co-design with industry a pilot project for a specific technology and / or sector.
 - Use learnings from the pilot project to develop a broader regulatory sandbox framework in consultation with industry and the community.

CCIWA is well-placed to facilitate the engagement with industry that will be required to progress regulatory sandboxes in WA.



given to improving regulation in Cabinet and Parliament and help create a culture across government of continuous improvement.

That Minister would advocate for reform proposals presented by the Streamline WA Steering Committee to the Jobs and Economic Diversification Cabinet Sub committee.

Pushing ahead with regulatory reform is vital to the State's economic recovery, so Streamline WA – with its focus on removing regulatory barriers to industry – should be prioritised as part of the recovery phase. The Treasurer advocating for the initiative will raise the priority given to improving regulation.

Businesses have spent considerable time and resources over many years telling governments about the problems they face with red tape. Many businesses have provided this feedback to Streamline WA, including via CCIWA. However, often government does not provide feedback to individual businesses about how their concerns are being addressed.

To provide this feedback loop, CCIWA recommends that Streamline WA, in conjunction with the relevant regulatory agency, be required to contact individual businesses that make submissions about red-tape issues to discuss the issue and provide information about how it will be resolved.

As part of the State Government's red-tape reduction package, all approvals agencies will publish performance data online and reach agreement with Ministers about acceptable targets for improvement. To bolster this process, CCIWA recommends that:

- Agencies should be required to report frequently to Streamline WA on their progress meeting

CCIWA applauds the recent moves to reduce red-tape made by the State Government. These are the types of reforms needed to better position our State to take on the challenges of the COVID-19 recovery phase and return to growth. The reforms respond to concerns CCIWA has raised with government for many years, including about:

- poor access to information on regulatory requirements in plain English
- lengthy and uncertain approval processes and timeframes
- duplication of requirements across multiple government agencies
- a lack of transparency and accountability over whether and how regulators are improving the way they interact with businesses.

CCIWA will continue to work constructively with government to support implementation of the reforms, including through its role on Streamline WA.

Our recommendations in this section are aimed at ensuring the momentum behind the State Government's recent reform efforts continue and identifying areas where further change could take

the WA economy to the next level.

Red-tape reduction does not have to involve significant levels of public funding, if any. As such it should be a particularly attractive area of reform in the context of the State's fiscal constraints.

Ensure red-tape reduction continues to be prioritised

For too long reducing red tape has not been prioritised by government.

To ensure the reforms the State Government has announced to date are implemented expeditiously, it must commit to an implementation timetable and regularly publicly report on progress.

Only then can businesses be confident that red tape will no longer take them away from growing their business and creating jobs.

Changes should be made to Streamline WA to ensure it can continue to deliver quick and meaningful regulatory reform even as the 'burning platform' created by the economic fallout from COVID-19 begins to fade.

To this end, the Treasurer should be assigned responsibility for driving continuous improvement of regulation, to raise the priority

The application of emerging technologies like automation, artificial intelligence, machine learning and 3D printing is an enormous opportunity for the WA economy.

the targets and timelines agreed with their Minister.

- Approvals agencies should also be required to publish information about the number of complaints they receive from businesses about red tape, and the timeframes taken to resolve those complaints.

Pilot a regulatory sandbox

Innovation and investment can help propel the WA economy through the recovery phase.

The application of emerging technologies like automation, artificial intelligence, machine learning and 3D printing is an enormous opportunity for the WA economy.

At the same time, businesses will be more reticent to invest following the COVID-19 pandemic.

One of the barriers to the application of new technologies is that they may not fit neatly into existing regulatory frameworks, making it difficult for businesses to earn the required regulatory approvals.

As a result, some sectors have struggled to capture the benefits that disruptive innovation could deliver for the economy.

The State Government can play an important role in facilitating the application of new business models and technologies. An emerging approach used by governments and regulators across the world is the use of 'regulatory sandboxes'.

Regulatory sandboxes should be piloted in WA. The rate of R&D expenditure and market entry were at historically low levels in WA even

before the COVID-19 pandemic.

While no panacea, this approach would help businesses to experiment with new technologies, and in so doing accelerate innovation and unlock the benefits of technology. Operating on a 'business as usual' basis in the wake of the pandemic just won't cut it.

Sandboxes would also offer benefits to regulators themselves. By becoming more familiar with regulation at the early stages of innovation, regulators would be better placed to identify the potential risks associated with the technology, and whether there is a need to reform the existing policy or regulatory framework.

There are several potential areas that could be explored when considering where this approach could apply. This includes in sectors like agri-business (such as

applications of drone technology, agricultural chemicals and biotechnology) and energy (such as carbon sequestration technologies), as well as specific technology areas like mobility and 3D printing.

Any regulatory sandbox pilot project should be co-designed between government and industry. The pilot project should carefully account for risks, be open to any industry participant (to avoid 'picking winners') and be time limited.

The initiative is likely to be more effective if it is packaged up with a regulatory concierge service, whereby the applicants of new technology are guided through the various stages of regulation.

The WA Government should work with industry to identify the areas where there are likely to be significant benefits from introducing the regulatory sandbox pilot project.

What are regulatory sandboxes?

Regulatory sandbox arrangements allow businesses and regulators to quarantine innovative new products, services and business models from regulation for a limited period with appropriate safeguards. This creates a testing environment for proof of concept trials for innovation, with real users. The concept can be extended to pre-launch and pilot phases.

Within Australia, these arrangements are currently used by the Australian Securities and Investments Commission, the NSW State Government, and are being considered by the COAG Energy Council for use in the national energy market.

The use of regulatory sandboxes is at an early stage worldwide, but there is emerging evidence of their usefulness. Evidence from the UK suggests these models can help start-ups by providing important guidance on the application of regulation, enabling the fine tuning of business models, and increasing the credibility of firms with investors and customers. The success of the Australian Securities and Investments Commission's regulatory sandbox has caused it to expand the sandbox from 1 September 2020, allowing for a broader range of innovation to be tested and for a longer time period.



Develop smart policy to support the industries of the future

At the heart of any successful manufacturing policy must be a focus on innovation.

Recommendations

- The State Government should establish an overarching manufacturing Industry 4.0 strategy. The focus of the strategy should be on accelerating the adoption of Industry 4.0 technologies. It should demonstrate the ongoing relevance of the manufacturing industry and provide an overview of the value proposition for businesses to adopt Industry 4.0 technologies by quantifying the benefits and return on investment. As part of this work, the State Government should – in partnership with industry:
 - Educate itself on aspects of Industry 4.0 and help to inform the business community of the opportunities provided by Industry 4.0. The State Government should engage an external expert to provide these services on a commercial basis.
 - Develop an online portal that consolidates information on government incentives and programs to adopt new technologies. This consolidated view would help to identify any gaps in the support system that need to be addressed.
 - Based on the above work, consider the need for financial support for the uptake of Industry 4.0 technologies and processes, but in a tightly targeted way under strict conditions: financial support should only be provided where there are spillover benefits for other industries, those benefits outweigh the cost to the budget, and the investment would not have otherwise occurred.

In the wake of COVID-19, governments are increasingly intent on supporting domestic manufacturing.

The approach of governments so far has been to provide direct financial support or feasibility studies to manufacture particular parts and products that they want to see made locally.

This is a 1970s approach to industry policy. While billions are spent by governments each year on direct industry assistance, there is no evidence to suggest these expenditures have significantly improved the competitiveness, growth or innovation capacity of either the industries involved or the broader economy.

It is also important to recognise that these sorts of initiatives make it harder for other industries to grow. By attracting skilled workers to potentially uncompetitive pursuits, we forgo the opportunity to develop truly competitive industries. These costs are amplified in the current environment in which it is difficult to import skilled workers.

What should governments instead be doing?

At the heart of any successful manufacturing policy must be a focus on innovation.⁹

Innovation is central to the formation and development of new industries. The role of innovation in developing new industries — including in manufacturing — is accelerating. Advances in communication technologies, devices connected to the internet and data analytics are occurring at a much quicker pace than at any other time in history. We are now living through a fourth industrial revolution, referred to as 'Industry 4.0'.

The application of Industry 4.0 in manufacturing is enormous,

What is Industry 4.0?

1. Artificial intelligence
2. Big data
3. Cloud computing
4. Smart sensors
5. Advanced manufacturing
6. Virtual and augmented reality
7. Automation

encompassing pre-programmed computer software that determines the movement of factory equipment and tools (Computer Numerical Control), laser beam welding and 3D printing.

Effective industry policy comes down to an effective innovation policy.

Many of the recommendations in this pre-budget submission are aimed at providing new industries every opportunity to establish and develop. These include cost-effective access to reliable infrastructure, a low tax burden, smarter regulation, and access to skilled workers. Beyond these general themes, some specific policies that are relevant include removing transfer duty on non-land business assets, a simpler IR system and trialling regulatory sandboxes.

The State Government should go further and establish an overarching manufacturing Industry 4.0 strategy. The focus of the strategy should be on accelerating the adoption of Industry 4.0. It should demonstrate the ongoing relevance of the manufacturing industry, and provide an overview of the value proposition for businesses to adopt Industry 4.0 by quantifying the benefits and return on investment.

A number of specific initiatives should sit under the strategy.

First, to supercharge the

understanding and uptake of these technologies in local businesses, government should – in partnership with industry – educate itself on aspects of Industry 4.0 and arrange for speakers, forums and information resources to facilitate both the transfer of knowledge to local firms and the networking opportunities between local and foreign businesses. As part of this process, governments should share export market intelligence gathered through trade offices and trade missions. There should also be a focus on business strategy development. Germany's Government took this broad-based approach to facilitating networking and information sharing with its business community in 2011, and other Australian jurisdictions are significantly more advanced than WA in supporting SMEs to uptake Industry 4.0 technologies.

The State Government should also develop an online portal that consolidates information on government incentives and programs to adopt new technologies (like the Commonwealth Government's Commercialising Emerging Technologies and Entrepreneurs Program). This consolidated view would help to identify any gaps in the support system that need to be addressed.¹⁰ Again, this is an approach taken by Germany with great success.

It will also be important to consider the role of the training system to support the adoption of advanced technologies, including the need for common user infrastructure, and the linkages across the VET and university sectors.

Government should engage an external expert to provide these services on a commercial basis. The key would be to evaluate their effectiveness on an ongoing basis and modify them accordingly.

⁹ Innovation has a number of elements, including knowledge transfer, technology acquisition and transfer, skills development, commercialisation and collaboration between research organisations and industry.

¹⁰ Any such support should be tightly targeted. Government should only provide financial support where there are spillover benefits for other industries, those benefits outweigh the cost to the budget, and the investment would not have otherwise occurred.



Simplify the industrial relations system for small businesses and not for profits

Transferring the State's residual powers to the Commonwealth would generate cost savings for the WA Budget and reduce confusion among employees and employers.

Recommendations

- To generate cost savings for the WA Budget and reduce confusion amongst private and not-for-profit sector employees and employers about their employment rights, the State Government should refer its residual industrial relations powers regulating private and not-for-profit sector workplaces to the Commonwealth.
- Absent the referral of Western Australia's residual industrial relations powers regulating private and not-for-profit sector workplaces to the Commonwealth, the state industrial relations system should harmonise with Commonwealth laws to deliver an efficient, consistent and competitive business environment.



The simplification of industrial relations (and related) legislation would create a more efficient state system and remove unnecessary costs.

Most Western Australian workplaces are covered by the national industrial relations (IR) system under the *Fair Work Act 2009*. The State system, under the Industrial Relations Act and other legislation, still regulates around 10 to 15 per cent of the WA private and not-for-profit sectors.

Referring the residual industrial relations powers to the Commonwealth Government would generate cost savings to the WA Budget and reduce the level of confusion amongst private and not-for-profit sector employees and employers as to which system applies to their workplace.

It would also level the playing field for WA small businesses covered by the state system, who currently must pay a higher minimum wage than their often larger competitors under the national system. The small businesses most impacted are also those hardest hit by the economic

effects of COVID-19, for example, in the retail and hospitality sectors.

All other states have referred these powers, which in addition to generating cost savings, has reduced the level of confusion amongst private and not-for-profit sector employers and employees.

The State Government should maintain control over industrial relations for public sector functions. Transitional arrangements could be established to manage the transfer of private and not-for-profit sector workplaces into the national system.

If the State retains its residual industrial relations powers, it should nonetheless deliver a workplace relations regulatory framework that is consistently applied and appropriately balances fairness and minimum standards with employment, business viability, growth and investment, and competition.

The simplification of industrial relations (and related) legislation would create a more efficient state system and remove unnecessary costs to government, business and taxpayers. Complex and confusing transactional and compliance employment costs harm the unemployed and employees as well as those who provide employment.

Importantly, the State's industrial relations framework should consider the implications of the Future of Work on workplace needs and regulation, and anticipate and consider the future needs of contemporary small business in WA.

The recently introduced *Industrial Relations Legislation Amendment Bill 2020* represents a missed opportunity for the WA Government to reform the state industrial relations system in a manner that promotes small business employment.



Ensure businesses have access to globally competitive infrastructure

Infrastructure underpins every aspect of Western Australia's economy and is a key enabler of economic and productivity growth.

Recommendations

- CCIWA welcomes Infrastructure WA developing the State's first 20-year infrastructure strategy. We have long called for a better infrastructure planning framework to guide infrastructure investment in the State. As a priority, the Strategy should consider ways to engage the private sector more in financing, designing, building, operating and maintaining infrastructure.
- In terms of infrastructure proposals currently under consideration, we recognise that Fremantle Port, albeit significantly below capacity today, may not sustain WA's container trade beyond the next 20 years. It is therefore a prudent step from the State Government to do some preliminary planning work on such an important issue. Given we are currently in one of the most uncertain periods of our economic history, the Westport Taskforce must continue to update its forecasts for future container trade. It must evaluate potential costs of trade for the business community as part of developing a business case and take a cautious approach to future decision making on the project.
- In terms of immediate infrastructure needs, MainRoads, Western Power, DevelopmentWA, the Department of Jobs, Tourism, Science & Innovation and local government should work with industry to identify parts of the High Wide Load road corridor network where enhanced functionality is needed and prioritise addressing these bottlenecks. Enhancements would vastly improve efficiency of the State's road freight network.



Efficient and reliable infrastructure provides a platform for local businesses to compete in overseas markets and is equally critical for domestically focused businesses seeking to minimise their costs. High quality infrastructure is a key enabler of economic and productivity growth and improved quality of life for Western Australians.

Infrastructure WA's 20-year strategy

CCIWA welcomes Infrastructure WA developing the State's first 20-year infrastructure strategy (the Strategy). We have long called for a better infrastructure planning framework to ensure priority projects are progressed. The Strategy will provide direction and certainty for businesses and the not for profit sector about the State's significant infrastructure needs and priorities over the medium- to long-term.

It is more important now than ever for the Strategy to identify the areas where investment can best catalyse growth in an economically efficient way. The Strategy should determine infrastructure investment priorities based on the relative costs and benefits of the different options available. This should include consideration of the opportunity

costs of investing in different options now versus later. Mistiming infrastructure investment can cause significant costs for both business and government.

The Strategy must also be mindful of the challenges parts of the community — including the elderly and those with a disability, people living and working in the regions, and lower socio-economic groups — face accessing appropriate infrastructure.

In a constrained funding environment, it is important to improve the efficiency of service delivery and explore alternative options for funding and delivering important economic and social infrastructure. The Strategy should therefore consider ways to engage the private sector more in the infrastructure lifecycle to assist achieve the Strategy's objectives.

Appropriately placed suitable land and efficient planning processes are key enablers for industry growth and the attraction of business investment to Western Australia, particularly for industries where the investment location is flexible. More use of Public Private Partnerships would facilitate private sector involvement and encourage efficient infrastructure delivery. Privatisation

can also improve the efficiency of infrastructure provision.

It is difficult to predict the medium to long term effects of COVID-19 on the State's infrastructure needs. The Strategy therefore needs to be sufficiently flexible to accommodate the medium to long term implications as they become clearer. That said, the effects of the pandemic have highlighted the need for flexible infrastructure that can be scaled up and down or repurposed to meet large changes in demand arising from emergency events. In a range of contexts, infrastructure that is adaptable and responsive has proven most effective in supporting the economy through COVID-19.

We acknowledge that the Strategy is generally intended to not focus on projects and programs beyond the existing State Budget forward estimates. However, it is still important that Infrastructure WA performs its other functions in relation to these immediate projects and programs. In particular, Infrastructure WA should focus on proactively engaging with agencies to build better infrastructure proposals. This is especially important in an environment where infrastructure is being fast tracked to support the economy.

Undertake further work on Westport

We acknowledge the State Government's commitment to a further four-year process for the Westport proposal, with \$97.2 million to develop a business case, conduct environmental works and undertake preliminary planning work.

CCIWA recognises that Fremantle Port, albeit significantly below capacity today, may not sustain WA's container trade beyond the next 20 years. It is therefore a prudent step from the State Government to do some preliminary planning work on such an important issue.

At the same time, we look forward to the Westport Taskforce sharing modelling that outlines evidence on the merits of a new port. CCIWA is particularly keen to see scenario modelling of the costs of trade borne by the business community under alternative levels of future container trade.

Key assumptions made by the Westport Taskforce include trade volumes increasing by a factor of five, and Western Australia's population exceeding 5 million. If these and other projections do not eventuate, there is a significant risk that the cost of using a new port will be higher for the business community. This would put at risk the future international competitiveness of industries like manufacturing and agriculture.

We are currently in one of the most uncertain periods of our economic history. As such, it is vital that the Westport Taskforce continues to update its forecasts for future container trade. It must evaluate potential costs of trade for the business community as part of developing a business case and take a cautious approach to future decision making on the Westport project.

Enhance the State's High Wide Load road corridor network

Roads are the dominant mode of transport for most freight and are used by nearly all industries at some stage in their logistics chain. If they are not fit-for-purpose, roads can substantially hamper businesses' ability to operate efficiently and profitably.

Twenty years ago, agreement was reached between the State Government and industry on the need to implement a High Wide Load (HWL) network in Western Australia. Vehicles carrying HWL require extra lane width and height clearances, which are not always available on the principal road freight network.

HWL access is currently restricted on key parts of WA's road network. Main Roads Western Australia has made significant progress implementing the originally planned HWL corridors from a width perspective but loads that can be transported within and leading out of the metropolitan area fall short from a height perspective.

As an example, fabrication and equipment manufacturing companies are located at the Common User Facility within the Australian Marine Complex (AMC) in Henderson. These businesses need to be able to transport HWLs to the Common User Facility, and to other locations within the metropolitan area and across the State. The HWL corridor network is therefore extremely important to the success of the Common User Facility, the greater AMC precinct and surrounds, and industry more broadly.

Bottlenecks like this exist in many locations across the State's road network.

MainRoads, Western Power, DevelopmentWA, the Department of Jobs, Tourism Science & Innovation and local government should therefore work with industry to identify parts of the HWL road corridor network where enhanced functionality is needed and prioritise addressing these bottlenecks. Enhancements would vastly improve efficiency of the State's road freight network.





Ensure local government charges do not disadvantage WA businesses

Lower costs mean more successful, dynamic businesses that benefit the whole community.

Recommendations

- CCIWA acknowledges the Local Government Review Panel's recently released final report on a new Local Government Act, which briefly considers rates, fees and charges. However, to address the business community's concerns about the effectiveness, efficiency and sustainability of local government's functions and finances, we would like to see a more thorough and transparent consideration of the issues and options to solve them. The ERA review recommended by the Local Government Review Panel should therefore be broader, and consider:
 - The functions local governments are currently undertaking, including their basic statutory responsibilities, discretionary activities and functions the State Government requires them to perform.
 - The mechanisms that could be put in place to ensure local governments operate and invest efficiently, and that only efficient expenditure is passed on to businesses and households in rates, fees and charges.
- CCIWA is a passionate believer in the value that art provides the economy and broader community. While we acknowledge the role for public funding of the arts sector, local governments' Per Cent for Art Schemes burden businesses seeking to invest in our economy with responsibility for funding the arts sector. Local government Per Cent for Art Schemes should be scrapped, and the arts should be funded from general revenues instead.

The logic is simple. If Western Australian businesses have lower costs than their interstate and international peers, they will be more competitive and create more jobs. And for those small businesses that don't compete in markets outside WA, lower costs mean more successful, dynamic businesses that benefit the whole community.

Growth in costs is one of the most significant issues affecting confidence, spending and investment in the WA economy.

There is a perception amongst the business community that some local governments' expenditure is not effective or efficient. Indeed a submission

from a former Western Australian councillor to the Productivity Commission in 2017 said:⁹

As the only metrics that are measured and compared are size of budget and workforce reporting these have to be the primary determinants of remuneration...this ensures there is constant and unending pressure to increase both of these. So fundamentally, the more money they spend the more they are paid. So logically it follows, the more money they waste the more they are paid, the more inefficient they are the more they are paid because both inflate their expenditure.

Meanwhile, some rates, fees and charges have been increasing rapidly.

Property rates and charges, for example, have increased around six per cent per year on average since 2000 – much faster than growth in household and SME income. This means that, each year, businesses have higher overheads and reduced profits to invest or employ additional workers. The compounding effect of six per cent annual growth in rates for 20 years means that a café that was paying \$1,000 in rates, fees and charges back in 2000, is now paying \$3,000 in rates, fees and charges. It also means that a three-person household that was paying \$1,000 in rates, fees and charges, is now paying \$3,000 in rates, fees and charges.

Although rate increases have been lower in the most recent financial year, people and businesses are still paying three times more in rates, fees and charges on average than they paid back in 2000.

At the same time, local councils say the State Government is requiring them to perform an increasing range of functions, for which they are not always adequately compensated — particularly when fees and charges for the functions are set in state government legislation.

Information provided on the MyCouncil website about local councils' revenue, expenditure and rates provides much needed transparency over each council's financial performance.¹⁰ However, this may not be sufficient to ensure that local councils spend revenue collected from businesses and households on services these ratepayers want, and at the most efficient cost.

In other jurisdictions (for example, New South Wales and Victoria),

If Western Australian businesses have lower costs than their interstate and international peers, they will be more competitive and create more jobs.



11 Cited in Productivity Commission, *5 Year Productivity Review: Supporting Paper No. 16 – Local Government*, p.14.

12 Department of Local Government, Sport and Cultural Industries, 'MyCouncil', at <https://www.mycouncil.wa.gov>.

these issues are dealt with by an independent regulator overseeing the maximum amount councils can collect in general revenue through an annual rate peg.

CCIWA acknowledges the Local Government Review Panel's recently released final report on a new Local Government Act for Western Australia, which briefly considers these issues. The report recommends:

- Rate capping should not be introduced.
- Local governments should be required to develop and publish a rates and revenue strategy.
- The Economic Regulatory Authority (ERA) should be asked to undertake a review of the rating system, including a thorough examination of the case for the current wide range of exemptions. The current rates exemptions should be retained until after the ERA review. Property owners seeking an exemption should be regularly required to prove they meet the criteria for an exemption.
- Local governments should charge a separate waste charge applying to all properties which have a waste service, including exempt properties.
- The Valuer General should be asked to undertake a review of the rating methodology with the aim of smoothing out significant fluctuations in valuations.
- Local governments should be able to set reasonable fees and charges according to a rating and revenue strategy, with the oversight of the Audit, Risk and Improvement Committee.
- Local governments and the State Government apply cost recovery principles when setting fees and charges.

While CCIWA supports some of these recommendations, we would like to see a more thorough and transparent consideration of the issues and options to solve them. To more thoroughly understand and address the issues, CCIWA recommends that the ERA review recommended by the Local Government Review Panel be broader, and include consideration of:

- The functions local governments are currently undertaking, including their basic statutory responsibilities, discretionary activities and functions the State Government requires them to perform.
- The mechanisms that could be put in place to ensure local governments operate and invest efficiently, and that only efficient expenditure is passed on to businesses and households in rates, fees and charges.

Local government Per Cent for Art schemes

CCIWA is a passionate believer in the value that art provides the economy and broader community. The reason we advocate for policies that support a stronger economy is because only a strong economy can sustain social, environmental, economic, and cultural opportunities for current and future generations of Western Australians. In providing those cultural opportunities, the arts sector clearly plays a central role.

CCIWA has advocated for the arts community through the COVID-19 pandemic, advocating to both levels of government to extend their support measures to all parts of the business community.

CCIWA also directly supports the arts community itself. We have recently moved into a new building, where we will be rotating the

work of local Western Australian artists throughout our premises in collaboration with Art Collective WA.

While we acknowledge the role for public funding of the Arts sector, the Per Cent for Art Scheme burdens businesses seeking to invest in our economy with responsibility for funding the Arts sector. We do not believe it is appropriate for one part of the business community to be required to provide direct financial subsidy to another. This is the firm view of our members within the business community and a longstanding position of principle. Our view is that any solution should be based on the principle that art is a public good, enjoyed by a broad cross-section of the community, and should therefore derive its funding on this basis.

It is also our view that adding an extra burden on entrepreneurs and businesses looking to invest in the WA economy will ultimately harm the arts sector in the long run. The lessons of history — whether as it relates to medieval Athens and Florence, or modern New York, London and Paris — is that the arts sector only truly flourishes when economic conditions are strong.

CCIWA warmly welcomes any discussions around better mechanisms to ensure the arts community is sustainably funded. Indeed, we have recently engaged in constructive discussions on sustainable funding solutions with members of the WA arts community.

Similarly, we are keen to grow our creative industries sector in this State and will examine options to do this with key business and community stakeholders in the coming months.

Creative industries have a fundamental role in shaping our State's future. They are critical to our economic development and in enhancing WA's reputation as a great place to live.



Keep an eye to fiscal repair and budget sustainability

Sustainable finances will provide the State Government with the flexibility to respond to further economic shocks.

Recommendations

- To strike the right balance between fiscal sustainability and supporting the economy through this difficult period, the State Government should:
 - Continue to strictly enforce the public sector wages policy.
 - Examine further State-owned assets to determine if they would be better placed in private ownership to provide improved benefits to consumers and the WA community. The approach taken to the Landgate transaction could be a model for examining similar assets within Government. The Western Power transmission network and Utah Point Bulk Handling Facility are other options that the State Government should consider.
 - Not impose new revenue measures to achieve its financial objectives, including establishing new, or increasing existing, taxes.
 - Continue identifying opportunities to implement the recommendations of the Service Priority Review and Langoulant Inquiry as a matter of priority. This should include accelerating implementation of Service WA.
 - Develop a policy and implementation strategy for using innovative financial instruments to invest in achieving social outcomes.

The State Government must be commended for the disciplined approach to responsible fiscal management and returning the budget to surplus prior to COVID-19. And despite the impact on the budget of COVID-19, the WA Government is in a better position financially than many other jurisdictions.

The State Government will continue to face challenges supporting the economy through its recovery from the COVID-19 outbreak. Insofar as additional spending is required to support the economy during this period, a weaker operating position for the budget is an understandable outcome.

WA's finances are, however, going to be in serious need of repair. Events like COVID-19 help to illustrate why it is so important that governments maintain fiscal discipline over the longer term. Indeed, Germany's success in supporting its economy through COVID-19 has been attributed to its strong financial position, built on many years of careful fiscal management.

Looking beyond COVID-19, a longer-term focus on fiscal repair will be essential to fixing the State's finances and reducing net public sector debt. In the years that follow, making inroads into the stock of net debt will ensure that governments have capacity to smooth out future shocks to income and employment. It will also reduce the interest paid on this debt – money that could otherwise be spent on productivity-boosting infrastructure or services like schools and hospitals.

In the past, increased government spending has been attributed to servicing the needs of WA's growing population amid a booming economy. However, during the boom the size of government expanded well beyond what was needed to deliver services to the growing population, which materialised in increased public-sector wages, increased regulatory functions and increases in the

volume of services to be delivered.

Extending this point, it is concerning that the State Government announced earlier this year its decision to discontinue its contract at Fiona Stanley for cleaning, catering and internal logistics services through private service provision. This decision comes at a considerable cost to the taxpayer for no obvious benefit. Decisions like these will prolong the State's financial recovery and cost the community.

Once the virus is contained, the State Government should return its trajectory for the size of government to a more sustainable proportion of gross state product (GSP).

Continue to enforce the public sector wages policy

The most important thing the State Government can do to constrain expenditure growth is to continue strictly enforcing its public sector wages policy.

Public sector wages are the largest component of general government expenditure (42 per cent in 2018-19) and are forecast to increase by one percentage point (to 43 per cent) over the forward estimates (Chart 3).

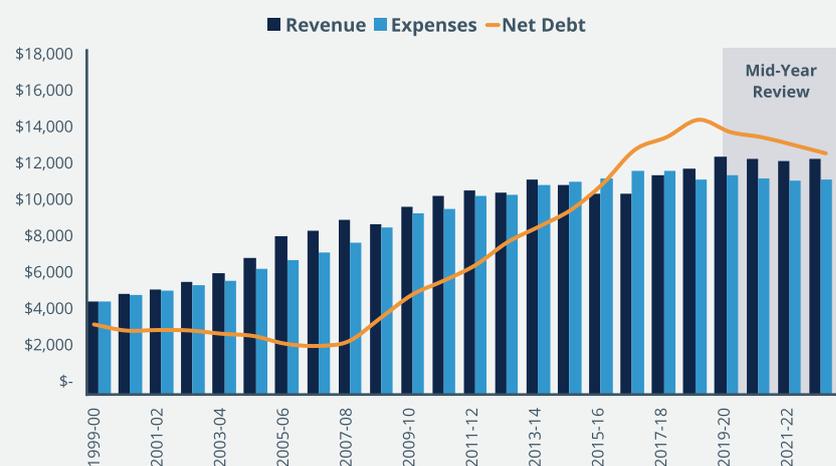
While private sector wages have adjusted in response to the end of the mining construction boom,

Chart 1: Size of WA Budget in the Economy
Government Budget/Gross State Product (%)



Source: Historical WA State Budgets; ABS Cat No. 5220.0 [2020]

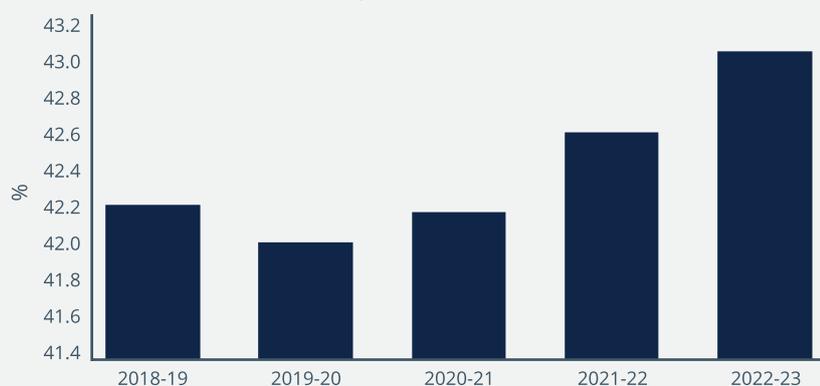
Chart 2: Government Debt Per Capita



Source: Historical WA State Budgets [2020]

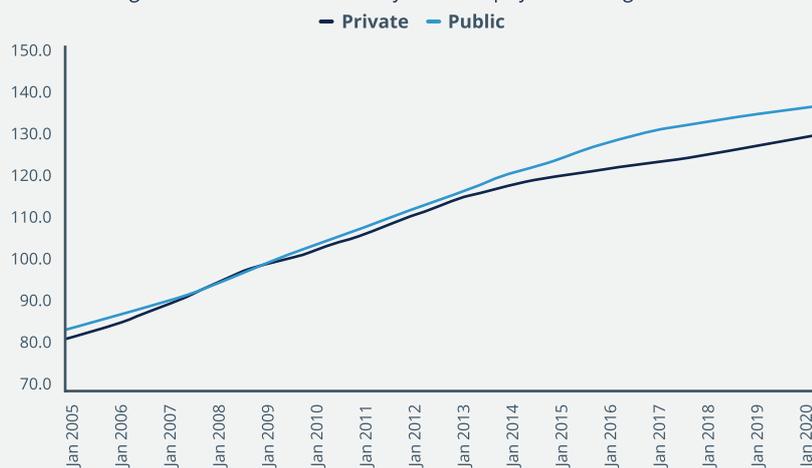
Chart 3: Public Sector Salaries as a Proportion of General Government Expenditure

WA State Budget: Forecast Expenditure



Source: Historical WA State Budgets; ABS Cat No. 5220.0 [2020]

Chart 4: WA Public and Private Sector Wages
Wage Price Index, total hourly rates of pay excluding bonuses



Source: ABS Cat. No. 6345.0

public sector wages have been much slower to respond (Chart 4). WA public sector wages are still higher than all other states except Victoria.

It is therefore entirely reasonable and appropriate that the State Government continue its strict enforcement of the wages policy (having regard to the total cost of improved entitlements).

This is particularly so given the current economic climate. The Reserve Bank of Australia is expecting inflation to be very low for the next few years. In CCIWA's recent Outlook publication, we forecast that for WA, inflation will be

0.5 per cent in 2020-21 and rise only to 1.5 per cent by 2022-23. Inflation will remain low due to falls in oil prices, increased unemployment and increased competition among businesses to retain customers.

The State Government should ensure that the wages policy is rigorously applied to all public sector departments and agencies, with no special exceptions being granted for specific occupations or sectors.

Consider further asset sales and commercialisations

The State Government has executed several asset sales and

commercialisations in this term of government, so far raising over \$1.6 billion. While there is unlikely to be sufficient time within this term of government to execute further sales — and nor is it likely to be optimal to try to sell government assets in the current climate — the State Government could begin considering further opportunities. This includes continuing to progress the sale of the TAB, once the economy begins to improve.

CCIWA has identified three further areas where private ownership would be expected to deliver net benefits to the community.

The Landgate transaction provides a useful model for considering further opportunities. The key feature of the transaction was the entering of an agreement with a private operator to provide outsourced services related to the updating and maintenance of a record database. There are other state government assets with these core features, which could also be candidates for a similar transaction.

The sale of Western Power's network should also be investigated. Not only would this deliver an estimated \$11 billion in proceeds, it would deliver significant benefits for electricity consumers through lower prices.

There are some concerns that transferring an electricity network business to a private operator would result in higher charges. However, the availability of tight regulatory controls — and the real-world evidence — does not support this concern. Indeed, the Productivity Commission has argued the opposite.

The rationale for government ownership of network businesses no longer holds ... State owned network businesses appear to be less efficient than their private sector peers. This is not surprising given their multiple objectives, political intervention and the imposition of non-commercial restrictions. Privatisation is not a radical move despite some of the political concerns ... As it is



accompanied by regulation, it does not allow the businesses to exploit their market power nor to lower reliability and safety. Indeed, notwithstanding the concerns expressed by some, most evidence points to the community being better off after privatisation.

Infrastructure Australia has made similar arguments.

Those jurisdictions that have already made full transitions to private ownership – Victoria and South Australia – have delivered substantial benefits to consumers. In 2014, the Australian Energy Regulator found that privately-owned Victorian and South Australian businesses were more productive than the government owned businesses in New South Wales, Queensland and Tasmania. The AER also found that privatisation had no material adverse impact on network reliability.

Infrastructure Australia has recommended that State Governments that have not already divested their state-owned electricity networks should do so “as soon as practically achievable”.

Another option is the Utah Point Bulk Handling Facility. Legislation enabling the sale of Utah Point was passed by the WA Parliament in 2016. Given that the enabling legislation is in place – and that the

current State Government fought off an attempt to repeal that legislation in 2017 – at some point soon the State Government should examine the case for selling the facility.

Do not introduce new taxes to repair the budget

The best way to address the current build-up of debt is through economic growth. This sentiment is echoed by the Western Australian business community, with the latest WA Super – CCIWA Business Confidence Survey highlighting that the vast majority (96 per cent) of businesses consider the best way to repay government debt is to grow the economy, rather than increasing taxes.

Western Australia’s tax burden is significantly higher than other states and territories (Chart 5). WA raises more than enough revenue given the size of our economy, population and geography.

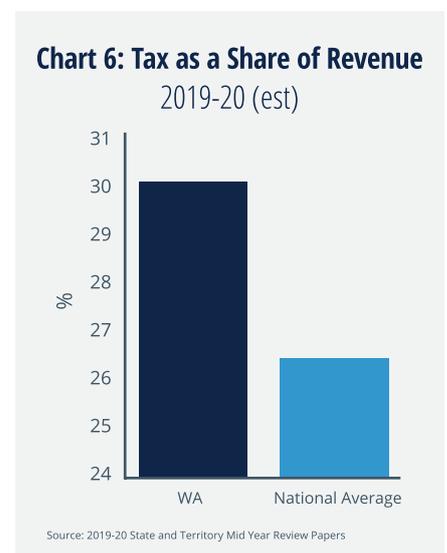
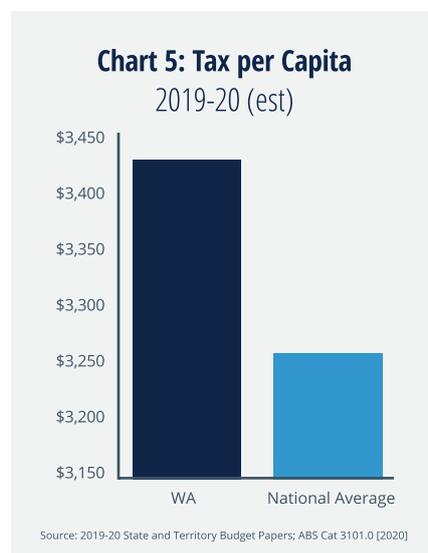
New taxes on WA’s business community would significantly hinder domestic economic growth and hamper WA businesses’ efforts to compete in the global economy.

With six out of seven WA jobs created by business, there’s no mistaking how critical their success is, not just to WA’s economy but to Western Australians that are unemployed and underemployed and looking for additional hours of work.

Efficiency improvements in the public sector

A highly functioning public sector is important for improved competitiveness and attracting investment. The Service Priority Review (SPR) and the Special Inquiry into Government Programs and Projects (the Langoulant Inquiry) have acknowledged the State Government’s challenge of providing a high level of service within tight fiscal constraints and developed their recommendations accordingly.

CCIWA urges the State Government to continue identifying opportunities to implement the recommendations



of the SPR and Langouant Inquiry as a matter of priority. This should include accelerating implementation of Service WA.

Meaningful public sector reform will make WA a more desirable place to do business and a competitive investment destination.

Using innovative approaches to invest in achieving social outcomes

If the State Government is serious about addressing complex social issues and the ongoing sustainability of public services, it must consider new approaches to service funding and delivery.

Social Impact Investing provides governments with alternative and innovative mechanisms to address social and environmental issues while leveraging government and private sector capital, building a stronger culture of robust evaluation and evidenced based decision making, and creating a heightened focus on outcomes. It supports proof of concept initiatives that seek to prevent negative social outcomes, thereby, in the long term, reducing the State's burden in funding health, welfare and justice programs that are required due to the lack of earlier intervention.

Social Impact Investing has been used by State Governments throughout Australia to address homelessness, reduce recidivism, improve the health and wellbeing of people with mental illness and restore children from out-of-home care to their families.

However, Western Australia is yet to make significant use of Social Impact Investing to fund service delivery. The Impact Investment

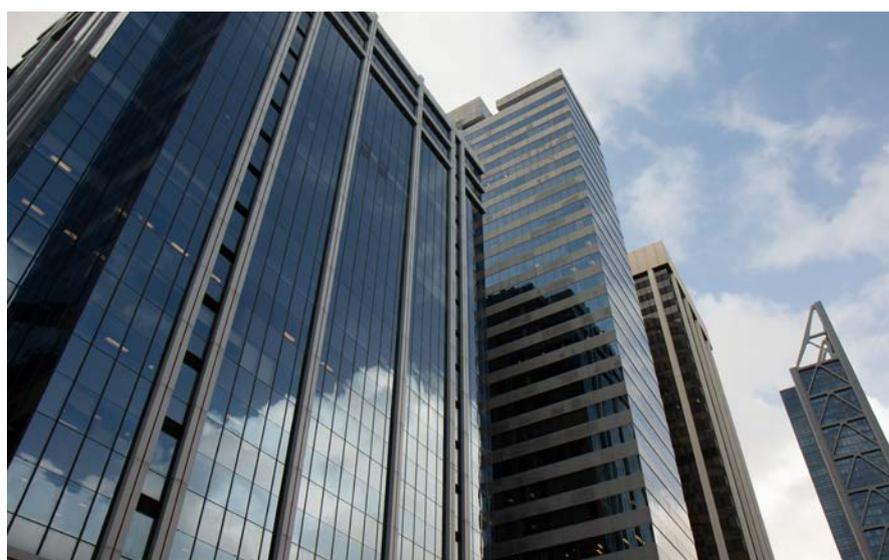
WA Alliance, which was launched in late 2019, has recently called on the State Government to support the Social Impact Investing sector, saying a lack of leadership is hindering progress.¹³ And while the State Government has signed onto the Commonwealth Government's Social Impact Investing agreement, it does not have a comprehensive policy or action plan to guide Social Impact Investing in WA.

In contrast, the NSW Government released a Social Impact Investing policy in 2015 and committed to delivering two new social impact investment transactions to market per year.¹⁴ NSW also has a dedicated Office of Social Impact Investment. Victoria released a social enterprise strategy in 2019, and PwC has estimated that the social return on the Victorian Government's investment in market development intermediaries and social enterprises between 2009-2014 was \$3.65 for every \$1 invested.¹⁵

As a starting point, the State Government should develop a Social Impact Investing policy and an action plan to grow the use of these innovative approaches in WA. These should set out the State Government's approach to social innovation, as well as things like social enterprises (including any frameworks for certifying them),¹⁶ how it will directly as well as co invest in social innovation (including using pay-for-performance contracts), and how it will build awareness and the capability of players in the market.

To inform development of the policy and action plan, the State Government should trial a Social Impact Investment project and take learnings from that trial. It would make sense for the Department of Communities to lead the work identifying and running the trial project, in collaboration with the WA Social Impact Investing sector.

Meaningful public sector reform will make WA a more desirable place to do business.



13 The West Australian, 'Impact on real change', June 23 2020.

14 NSW Government, *Social Impact Investment Policy*, February 2015, <https://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Social-Impact-Investment-Policy.pdf>, accessed 28/07/2020.

15 VIC Government, *Social Enterprise Strategy*, 2019.

16 These are commercially viable businesses that exist to benefit the public and the community, rather than or as well as shareholders and owners.

