

Australian Industry Group

Ai GROUP STATEMENT

In advance of the Western
Australian Government's
2018-19 Budget

APRIL 2018

Ai
GROUP

About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

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Introduction

The Australian Industry Group (Ai Group) urges the Western Australian Government to use the 2018-19 Budget to address the current pressures facing local industry and put in place a process for long term reform. This includes improving the cost competitiveness and lowering business costs for WA businesses and ensuring policy and regulatory settings in areas such as taxation and the provision and maintenance of infrastructure are conducive to the strong productivity growth needed to support our state's economic and social progress. This approach will be critical to industry and the state's future. It will allow the Government to provide a well-targeted stimulus to the economy while concurrently underwriting an improvement in the state's financial position.

The Western Australian economy is showing signs of recovery with the wind down in mining investment appearing to have largely run its course. However, it is clear that headwinds to growth persist. Consumer spending and dwelling investment remain under pressure in response to slow population growth (driven by a reversal in net interstate migration), low growth in wages and relatively soft labour market conditions. The Government's budget position also remains challenging. The Government's finances also remain under significant pressure. Despite a stronger revenue outlook in the short term reflecting higher commodity prices, significant fiscal challenges continue to confront the Government due to declining state tax revenue and a low share of GST revenue.

Ai Group has consistently emphasised the importance of building stronger and more diversified growth, as a basis for industry and community prosperity.

A strong growing, competitive and innovative state means that Western Australians benefit through both jobs and the opportunities to create new and improved services.

Ai Group recognises the fiscal constraints confronting Western Australia. The state's finances are under pressure from its sources of revenue and from the clear need to re-invest in the State's infrastructure.

However, the Government should not respond to these pressures facing Western Australia by increasing taxes, in the absence of holistic reform of the tax system. This would have a considerable adverse impact on business growth, investment and employment and impose an increased cost burden on the WA community.

For the medium and longer term, the fiscal direction is clear. Well-chosen investments that build on and create new opportunities provide their own rewards. These come in the form of additional jobs, higher levels of business activity and investment, a larger tax base and a greater capacity to finance future public sector services and investment.

In framing the 2018-19 Budget it is therefore important that the Government meets the challenge of balancing fiscal discipline in managing the State's budget while stimulating much

needed confidence and growth through targeted productivity-enhancing initiatives and infrastructure investment. In particular, the Government should focus on:

- **Facilitating and supporting efforts to encourage productivity improvements across the economy** - by lifting capabilities, building networks, enhancing relationships between industry and research organisations, creating mature partnerships with the private sector, and by providing appropriate information and encouragement - to businesses and other providers of goods and services;
- **Facilitating the provision of new and much needed infrastructure**, including by recycling capital through well-managed sales or long-term leases of carefully selected public sector assets;
- **Ensuring policy and regulatory settings** - in areas such as taxation and the provision and maintenance of infrastructure - **are conducive to strong productivity growth and community development**;
- **Improving competitiveness by lowering business costs** for WA businesses and;
- **Committing to long term regulatory reform and tax reform** to reduce the burden of business and improve competitiveness; renewing the state's infrastructure; developing the skills base; and improving our capacity to engage with the rest of the world and in particular with our fast growing neighbours in Asia.

Accordingly, set out as follows are the policy priorities that Ai Group believes will be critical to build on the efforts of the Government and further boost the productive capacity and long-term growth of the Western Australian economy, while facilitating a broad sharing of the benefits across the community.

Fiscal Policy

Maintenance of public finances to achieve sustainable long-term outcomes should remain a key fiscal strategy of the Government. This requires ensuring that recurrent spending is covered by recurrent revenue. It equally requires paying close attention to the level and balance of the State's assets and liabilities.

A failure to do so will increase pressure on the Government to find additional sources of revenue through taxes and charges. This would also limit the ability of the Government to undertake critical investments and have a considerable adverse effect on business growth and employment and impose an increased cost burden on the Western Australian community.

In this respect, it is pleasing that the Government mid-year financial projections statement has contained growth in expenses at historically low rates, averaging 2.2% p.a. over the four years to 2020-21 which is below the 1.9% p.a. rate at the time of the 2017-18 Budget.

Over the medium and longer term, the WA Government should:

- Target to achieve operating surpluses and sustainable debt positions without resorting to higher taxes and charges, in the absence of holistic tax reform. This target should also be balanced against the need for much needed productivity lifting infrastructure and skills;
- Ensure real per capita spending growth is maintained or reduced over the medium-term so that expenditure reflects population growth and inflation, thereby alleviating the need for higher taxes or increases in debt to finance spending;
- Provide sufficient funds for the continued development of the state's economic and social infrastructure and;
- Provide for improvements in the delivery of government programs and services. This includes evaluating agencies activities for opportunities for greater exposure to competition from the private sector.

Taxation Reform

The 2017-18 Budget saw the Government depart from its pre-election commitment not to introduce new taxes fees or charges. Instead, the tax burden for businesses was raised with new cost imposts with respect to the payroll tax rate (for businesses with payrolls above \$100 million); a higher royalty rate for gold; a 17% increase in Pilbara Ports Authority port dues and; a new point of consumption wagering tax.

Whilst we recognise the significant write-downs experienced by the State Budget throughout 2017 and understand that the Government needs revenue streams to fund important public services, the Government should not resort to repairing the budgetary position facing WA by increasing taxes. This only serves to put a risk the recovery in the WA economy by adversely impacting on business growth, investment and employment and imposing an increased cost burden on the WA community.

We therefore urge the WA Government to resist calls for further increases in taxes in the 2018/19 Budget. It is critical that WA's taxes and charges are efficient and competitive relative to other states and territories to enable the State to grow and attract investment. This creates its own rewards in in the form of a larger tax base and a larger net revenue stream and a greater capacity to finance future public sector services and investment.

The Government should also provide clarity around the future direction of taxation and commit to ensuring that state-based taxes do not increase as a share of GSP over the forward estimates.

There is also scope for more to be done to further reduce the tax burden through holistic long-term tax reform that makes the taxation system more efficient. Key areas of state taxation

reform that should be considered in the drive to improve business efficiency and productivity include:

- Reducing or removing taxes and charges that hinder or discourage businesses from growing and that distort or reduce economic activity;
- Reducing the compliance burden that the various state taxes and charges impose on business by minimising the complexity of taxes, fees and levies and simplifying tax scales and thresholds.
- Initiate an open review of State's recurrent revenue sources with the aim of improving the sustainability, efficiency, and fairness of current taxation arrangements;
- Maintaining certainty and simplicity so that the taxation system is easily understood and that businesses can clearly determine or anticipate how taxes are paid, and the amount of tax liability.
- Introducing regular and effective monitoring of the compliance costs borne by businesses, to clearly identify cost impacts and priority areas for reform.
- Moving the administration, collection and monitoring of all taxes, fees and levies on business to online and digital systems to reduce compliance costs and requirements.

Of critical importance, the Government should take action to substantially improve the competitiveness of the state's payroll tax regime which is an impediment to growth, investment and jobs in the state. The current payroll tax rate in Western Australia is the second highest of all states at 5.5%, while the exemption threshold is the fourth lowest. We would therefore advocate that as fiscal circumstances permit, the Government acts to substantially improve the competitiveness of the state's payroll tax regime. As a long-term policy goal, Ai Group continues to support the recommendations of the Henry Tax Review (Australia's Future Tax System, 2010), that included the abolition of payroll tax within the context of a wider program of national taxation reform. It has been suggested that payroll tax is an increasingly harmful tax on employment given the increasing competitiveness of automation technology.

The Government should also closely consider the option of removing residential and commercial stamp duties and a range of inefficient "nuisance taxes" by better utilising the land tax base as a source of revenue. Stamp duties are inefficient transaction based taxes that distort economic activity, constrain the residential construction market, push up the cost and availability of housing and provide a less stable base for raising revenue. There would be substantial gains for the economy through the imposition of an annual charge on the unimproved capital value of land rather than the turnover tax levied on the full property sale price.

Ai Group understands that removing payroll tax and stamp duties on property would be long term projects, but calls on the State Government to put in place a process for considering these as long-term drivers of economic growth.

In addition, we call on the WA Government to take a leadership role in driving holistic taxation reform at the national level, with a view to achieving real and meaningful harmonisation of taxes, fees and levies on business operating across multiple jurisdictions. Given the absence of the prospect in the medium term of structural reform to the way in which the GST is distributed, alternative ways to finance the removal of the most inefficient state taxes should also be investigated (as identified and recommended by the national Henry tax review some years ago).

Long-term Infrastructure Planning

Ai Group welcomes the Government's intention to boost infrastructure development in the state by establishing an independent body (Infrastructure WA) to provide advice on the development and delivery of infrastructure proposals. This will help in providing certainty to business and ensure better value for taxpayers' money. We recommend that Infrastructure WA develop a strong and far-sighted infrastructure strategy based on a rigorous and transparent cost-benefit analysis as part of a whole of government strategy. This will ensure that Government funds are directed at projects which have the potential to deliver the greatest economic and social benefits. This analysis should also identify specific opportunities for private sector investment to assist business in formulating long-term investment plans and ensure more efficient use of public and private resources to support continued economic growth.

In planning its future infrastructure investment in Western Australia we would also urge the Government to consider:

- Ensuring the early engagement of the private sector in projects so that opportunities, risks and issues on individual projects are identified and communicated before requiring the submission of tenders or expressions of interest. This enables businesses to more effectively understand projects, assess the likely cost of tendering and their chances of being a successful tenderer and develop any appropriate collaborative arrangements that may be needed to service the needs of a particular project or client;
- Developing programs of projects that can be commenced at short notice as timing and funding within the project pipeline permits;
- Adopting a consistent approach in the development and management of infrastructure proposals across the government sector. This enables business to efficiently deploy both capital and resources with confidence as to the Government's expectations and within a regime of rational commercial terms and risk profiles that attach to each project and;
- Smoothing investment cycles as a means of avoiding a surplus of projects entering the market at any given time. This acts to minimise infrastructure or capacity constraints and enables major projects to be funded and developed in a timely manner. A more even spread of projects can also assist in maximizing the benefits of increased investment and employment generation during periods when it is most needed.

Evaluate new ways to fund investments

Infrastructure funding within a sound fiscal framework represents a major challenge for the WA Government. As a consequence, there is a need for the State government to focus on the development of innovative, yet sustainable, models for financing projects into the future, and to adjust policy and commercial approaches that may have been relevant to the past but not the future.

The WA Government should look to encouraging greater private sector involvement in the provision of traditional government services and programs. This needs to be undertaken in a way that ensures value for money and consistency and reliability of service while, at the same time, enabling the Government to maintain an operational oversight of prices, service delivery standards and asset protection on behalf of the people of WA.

We also believe that there is a strong case for selling or leasing carefully-selected public sector assets to streamline service delivery and allow for the recycling of capital to fund vital road, rail, health, utility and other social infrastructure projects. Governments elsewhere in Australia, particularly NSW and Victoria, have been able to boost their investment in productivity enhancing infrastructure by the reform and lease of state-owned assets.

Land value capture is an approach that should also be considered by the Government to supplement the role that land taxes already play in recovering the cost of public infrastructure investment by capturing some or all the gains in land value that result from infrastructure investment.

In addition, the Government should commit to funding increased investments through cost savings and productivity gains achieved through public sector reforms.

Ai Group also believes that the State's Royalties for Regions program could be repurposed to focus on the development of infrastructure that supports and drives economic growth in the regions.

Business Regulation and Compliance

The WA Government needs to take priority action to reduce the cost of regulation and compliance on businesses. While regulation by Government generally aims to achieve particular economic and social objectives, excessive, ineffectual or badly designed and administered regulations can impose significant costs on businesses, deter investment, reduce employment and generally detract from the international competitiveness of industry.

Further reforms in regulatory compliance could provide significant spin-offs in improving business efficiency and productivity at a relatively low cost to the State Government.

We would encourage the WA Government to work closely with the Federal Government with a view to adopting the Productivity Commission's regulatory reform recommendations arising from the Commission's study on Regulator Engagement with Small Business (September 2013).

These recommendations are in accordance with Ai Group's long held position that a commitment to best practice regulation is essential for all government departments and that regulations should be transparent; accountable; proportionate; consistent and; properly targeted.

The Government should also consider the implementation of the following initiatives:

- Develop and review regulatory instruments in concert with other state and territory governments in order to achieve genuine harmonisation of state based laws (or centralisation of laws to the Federal level) and a greater degree of certainty and consistency in the standards applying to industry;
- Reduce unnecessary regulatory burdens on business, including duplication between agencies;
- Businesses be given the option of paying taxes, premiums and charges on an instalment basis where practicable;
- Regulatory agencies work together to develop and implement a broadly-based master license for business, subsuming all commonly required licenses and permissions in one instrument and;
- Establish an on-line platform that details all local government regulatory instruments, procedures and costs. This would provide industry and regulators with a highly visible comparison of the cost of doing business across local government jurisdictions.

Innovation

We commend the WA Government for delivering on its pre-election commitment to support innovation and Western Australian jobs through the introduction of the New Industries Fund. This initiative will be critical in stimulating the growth of new and emerging businesses through measures that build on WA's competitive strengths and enhance collaboration across industry, academia and the government.

The Government's support must continue and accelerate in the years ahead if Western Australia is to maintain its competitive standing. A strong growing and innovative state means that all people of Western Australia benefit through both jobs and the opportunities and the creation of new and improved services.

This includes a commitment to:

- Maintain support for the Australian Marine Complex (AMC) and its on-going development in enhancing the opportunities created by the clustering of industries;
- Continue to support of the State's tourism sector, including funding for securing major tourism events, marketing Western Australia nationally and internationally as a preferred convention, exhibition and incentive travel destination;
- Maintain the WA innovator of the Year program;
- Continue the Exploration Incentive Scheme to support exploration by mining businesses for the long-term sustainability of the State's resources sector;
- Build economic growth and sustainability in the regions by continuing Royalty for Regions funding and;
- Provide for continued private participation in the development of major infrastructure projects.

Ai Group proposes that the state government builds on its current range of programs and works to encourage innovation through its broader policies and legislation. This includes:

- Addressing gaps in the venture capital market, to assist innovative firms to break out and commercialise their research and development capabilities. This could be achieved through a State based Innovation Investment Fund, to ensure the business environment is conducive to investment and the commercialization of new technologies;
- Assisting businesses in developing a path for the adoption Industry 4.0 type capability to exploit the benefits of digital manufacturing and better integrated supply chains based on stronger data flows. Specifically, this could take the form of Industry 4.0. education/demonstration programs and the development of toolkits that help in the uptake of digital and smart manufacturing systems and;
- Increased funding for measures that increase collaborative opportunities between businesses, and between universities and industry. A successful joint venture arrangement that could be considered as framework for wider adoption is the WA Energy Research Alliance, involving the CSIRO, Curtin University/ The University of Western Australia, focused on capability building, research and education in the petroleum sector.
- Assisting SME's to develop design led innovation capabilities which has the strong potential to increase the speed of innovation along with lifting competitiveness within the small business sector. SMEs can face difficulties in acquiring the skills and capabilities to assist them with identifying niche opportunities, developing ways to exploit them and become more innovative. A focus on support for design led innovation capabilities

would also assist in driving upgrades in technical, design, cost and quality capabilities to meet customers' supply needs.

Significant benefits could also be achieved through the introduction of an innovation 'Start-Up' program for those businesses with no prior experience in R&D, but with an interest in starting an R&D project. These businesses often find it difficult to compete with larger and more experienced businesses for government funding which acts as a barrier to involvement. Under such a program, grants could be provided to companies (on a competitive basis) on a matching dollar for dollar basis, and be used for a broad range of purposes such as purchasing specialist equipment to undertake proposed R&D, to engage a consultant to assist in R&D activity, to employ a scientist or engineer to undertake R&D, or to engage the expertise of a university, CSIRO or another research centre.

Government Procurement

Ai Group welcomes the WA Jobs Act with its focus on providing local industry with full, fair and reasonable opportunity to access and win State Government supply contracts, underpinned by the implementation of a Western Australian Industry Participation Strategy (WAIPS). We also look forward to the roll out across a wide range of WA Government contracts of participation plans which will form a key part of the evaluation, award and contracting process.

Ai Group believes public procurement has the potential to offer opportunities to local businesses but any decision to acquire locally should be subject to rigorous fiscal assessment that takes into account the benefits of local procurement but also ensures that local content provides value for money for the taxpayer. Ai Group believes that Governments should be flexible on definitions of local content. For example, local content could be the local assembly of inputs made overseas when that is the most sensible option that delivers value for money for the government. Local should also refer to businesses operating in Australia and not limited to a single state.

It will be important that the Government ensure that the procurement framework includes consistency in relation to conformity with Australian standards. It should also take into account "whole of life" costs by adopting an approach that looks beyond "least cost" and brings to bear a more transparent, broader cost-benefit equation or value model. This approach recognises through-life servicing and support which are key advantages that local suppliers are able to offer, and is especially needed in major projects and major technology intensive purchases. It should also encompass a consideration of supply risks, quality risks and reliability that may affect production delivery times and/or these future costs. In many cases a holistic assessment of these costs will show that for local businesses these total costs could be lower than for overseas-based businesses because services could be rendered more quickly, more reliably and replacement parts delivered more promptly. The "whole of life" approach needs to be supported by an effective educational campaign to ensure that government purchasing officers and decision makers are aware of Australian industry capabilities.

Strong potential also exists to drive innovation through procurement policy. Ensuring that government procurement opportunities have significant flexibility and focus on performance based specifications instead of prescriptive specifications have the potential to provide businesses, large and small, with the opportunity to offer innovative products or processes. That is, procurement can provide a ‘demand-led’ model of research and development, and enables the government, that is the customer, with direct input at the development stage of a new product or service rather than waiting until it reaches the market. This brings benefits to both businesses and governments. There is also a need to reduce the complexity of purchasing practices and tender specifications which can disadvantage SME’s and new entrants in particular.

Ai Group commends the Government’s pre-election pledge to adopt the necessary mechanisms to allow for unsolicited proposals from the private sector as a means of maximizing investment and encouraging industry to submit innovative solutions to meet WA’s residential, commercial, industrial and social infrastructure needs. To further enhance this process, we recommend that the Government should draw on recent reforms introduced in Victoria which includes a strengthened five-stage process that ensures the Victorian Government only pursues proposals that meet a project or service need aligned with the Government’s policy objectives or priorities. This has the benefit of reducing the costs for the private sector by providing greater clarity on the Government’s priorities and requirements. The revised guidelines also allow a proponent the opportunity to submit innovative ideas or concepts without the need for a full proposal. Also, where the Government decides not to proceed with a proposal, and wishes to use the intellectual property, there are provisions allowing for appropriate payments to be considered.

Skills Development

The development of the skills of the current and future workforce and its managers is central to further advances in the economic and social well-being of Western Australia, and in securing the state’s long-term sustainability and prosperity. A focus on skills development will be critical in helping to diversify the WA economy and to take advantage of the potential for other industries to step up and fill the gap left by the mining boom. Specific measures we would recommend in the development of skills of industry skills are as follows:

- Implement measures that raise the level of STEM education at the primary, secondary and tertiary levels to meet future employment needs;
- Consider making mathematics compulsory throughout primary and secondary school;
- Work through COAG to examine the possibility of a movement towards a nationally funded and nationally operated tertiary education system;
- Strengthen the level of STEM participation in the VET sector, especially through apprenticeships and traineeships relevant to STEM skills and;

- Support the implementation of measures to achieve full national consistency for all apprenticeships across Australia, including consideration of an overseeing body to ensure programs and arrangements meet current and emerging occupational needs.