

Australian Industry Group

Ai GROUP STATEMENT

In advance of the Western
Australian Government's
2019-20 Budget

MAY 2019

Ai
GROUP

Contents

1. Introduction	Error! Bookmark not defined.
2. Summary of recommendations	5
3. Long term infrastructure planning.....	7
3.1 <i>Unsolicited proposals</i>	8
3.2 <i>Infrastructure funding</i>	9
4. Skills development.....	9
4.1 <i>Support for building company skills and training capabilities</i>	10
4.2 <i>Adressing youth unemployment</i>	10
5. Innovation and industry development	12
5.1 <i>Digitalisation, industry 4.0 and business capability</i>	13
5.2 <i>Other specific initiatives to lift growth potential of WA businesses</i>	14
6. Government procurement.....	15
7. Regulatory reform.....	16
7.1 <i>WA Licensing Review</i>	17
7.2 <i>New and emerging technologiesLicensing Review</i>	18
8. Standards and regulation.....	19
9. Taxation reform	19
10. Environment and energy	20
10.1. <i>Waste policy</i>	21
11. Fiscal policy	21

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.

Australian Industry Group contact for this submission

Kristian Stratton State Manager, Western Australia

0407 611807 Kristian.Stratton@aigroup.com.au

1. Introduction

This submission sets out the parameters and policies Ai Group believes should form the basis of the 2019-20 Western Australian budget. The submission addresses initiatives in the broad areas of fiscal and taxation policy, innovation and industry development, infrastructure and skills training.

The budget for 2019-20 is being framed within the context of a challenging and somewhat mixed business environment. Growth in state final demand for Western Australia remains below its long-term trend while consumer spending and dwelling investment continue to exhibit weakness in response to slow population growth, low growth in wages and high household indebtedness.

Many local businesses continue to face tough and testing conditions and are concerned about a range of pressures which are hindering their ability to compete in national and global markets. These pressures include slow productivity growth, a high burden of regulation, and inadequate skills, especially STEM skills to support innovation and competitiveness. A growing number of industrial and commercial businesses also have urgent concerns about the steeply rising price of electricity and gas and the increasing challenges to reliable supply.

Nevertheless, there are clear positives for the Western Australian economic outlook. Latest data reveals that WA has experienced the worst of the investment downturn arising from the slowdown in the state's mining construction sector. Leading indicators such as mineral and energy exploration have also shown improvement while mining profits have lifted strongly and maintenance and repairs on mining related capital developed during the mining boom will remain ongoing. In addition, export volumes should continue to be supportive of growth due to the lift in production capacity arising from the completion of major iron ore and LNG projects. This upturn is expected to gather greater momentum in the coming year or so with new gas capacity expansion (driven by the start of the Wheatstone and Prelude projects' output) and global growth (albeit moderating) set to underwrite further gains in non-rural export earnings.

While the Government's strong commitment to fiscal repair is delivering financial benefits to WA, future state budgets will need to retain a high degree of flexibility – to enable sufficient resources for ongoing investment in the drivers of competitiveness, and to create a sufficient buffer to enable this investment to continue in periods of relative economic weakness.

This is particularly important in view of the range of risks which could yet undermine the State's operating outlook, and which are beyond the control of the Government. This include any potential changes to Government funding from the Federal Government as well as key economic risks, including:

- Slower than expected growth in household spending due to elevated levels of household debt and the potential for future interest rate rises;
- A sharper than expected deceleration in Chinese growth which would weigh on the demand for WA's exports; and
- Weaker than expected growth in population and household incomes and its negative implications for dwelling investment.

A prime focus of this submission is therefore on maintaining budget flexibility to continue to enable the state to invest in the drivers of growth and competitiveness. This is not inconsistent with the need to continue to implement policies supportive of budget repair– it does imply however, that expenditures will need to be carefully targeted to achieve high growth, competitive outcomes.

This is critical in helping our businesses develop and gain market share domestically and internationally. This will underwrite stronger economic growth in the longer term, thereby lifting fiscal pressures over time.

2. Summary of Recommendations

Achieving state-wide growth and competitiveness will largely depend on creating a climate for business success. Accordingly, the Ai Group submission urges the Western Government to adopt the policy initiatives contained in this submission to assist in paving the way for further advances in the opportunities faced by the workforce, by households and by the State's businesses.

With this context in mind, Ai Group's priorities for the 2019-20 Western Australian Budget are:

- **reduce business costs** imposed through state business taxes including payroll and land tax;
- **ensure a continued focus on reducing, streamlining and removing unnecessary regulatory burdens.** This includes seeking to achieve genuine harmonisation of state-based laws (or centralisation of laws to the Federal level), and greater certainty and consistency in the standards applying to industry;
- a more urgent focus on building capacity by **investing in skills** and especially in rebuilding **the VET system, apprenticeships and STEM skills;**
- **support for building workplace skills and business training capabilities;**
- **address youth unemployment** by investing in effective programs and strategies to prepare young people and others who are new to the labour market for the world of work, including for example, tailored mentoring and coaching for new entrants to the labour market;
- a stronger emphasis on assisting Western Australian businesses to adopt and adapt **digital technologies**, building upon programs such as Industry 4.0 Higher Apprenticeships program;
- **investing in innovation** and removing regulatory impediments (and costs) to innovation; and
- focus on the **development of innovative, yet sustainable, models for financing infrastructure projects** into the future, including the further development of structured public-private partnership policies as well as user charges such as tolls and the land value capture financing approach.

Now and in the longer term, Ai Group's recommends that the Western Australian Government works towards the following objectives that are of an equally high priority, but may take longer to implement:

-
- **meaningful payroll tax relief for all employers**, with the goal of eventually phasing it out altogether as part of a comprehensive restructure of Australia’s national tax arrangements;
 - **investigate** the option of removing residential and commercial stamp duties by more fully utilising the existing local government land rate system or by a broadening of the land tax base;
 - a broadening of the land tax base would provide the Government with more scope to **take further action to abolish or at least reduce the inefficient “nuisance taxes”** that are a large source of direct state revenue. This includes motor vehicle and insurance stamp duties and other levies and licence fees;
 - work with industry, unions, States, local government and community organisations to **develop effective and proactive responses to anticipated closures or transitions of existing emissions-intensive facilities**; and
 - **address issues concerning industrial waste by adopting a broad strategy that includes support for innovation and commercialisation of technology options to close materials loops and utilise waste products** and a coordinated push to revise standards at all levels to encourage the use of recycled content which performs adequately.

3. 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). This will help in providing certainty to business and ensure better value for taxpayers' money while a focus on increasing infrastructure will be important in improving productivity and enhancing the competitiveness of the WA economy.

It is vital that funding is allocated transparently towards projects that have the potential to deliver the greatest economic and social benefits for Western Australia. This is best achieved by establishing a detailed and deliverable long-term infrastructure program, incorporating a time frame of at least 10-15 years. A longer-term planning approach will enable the private sector and its supply chain to better harness the skills and resources needed to deliver more cost and operationally effective outcomes for the State.

WA's long-term economic performance is highly dependent on the provision of efficient infrastructure and addressing future challenges driven by population changes. Added to this are the more immediate challenges that involve developing the state's productive capacity and modernising key infrastructure assets. This includes the need for increases to port handling and loading capacity, new rail systems to increase line capacity, and road upgrades on major supply corridors to avoid supply chain constraints emerging and to enable WA to take advantage of future resource sector growth opportunities.

Project planning will need to transcend the short-term political agenda with the Government playing a key role in facilitating the engagement of industry and the community in shaping the future direction of investment. This will enable the early identification of opportunities, risks and issues on individual projects with proposals reflecting the needs of businesses and the people of Western Australia.

Regular updates and early alerts on the level of priority attached to major infrastructure projects and the anticipated funding arrangements are required to provide greater certainty and direction for project proponents (to make informed decisions about their investments) and greater clarity for businesses and residents impacted by proposed developments.

There should also be a focus on smoothing investment cycles as a means of avoiding a surplus of projects entering the market at any given time. This helps 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

To enhance certainty in the planning and delivery of infrastructure, we also that the Government consider:

- utilizing non-funding levers available, including continuing to fast track development approvals; reducing delays and uncertainty in zoning, assessments and planning approvals and; reducing the regulatory and cost burden on industry by improving government tender processes;
- Clear and consistent application of land use and development policies with industry regularly informed on the status of its policies and strategies. This will help in providing industry with the certainty necessary to support its investment decisions.
- Adopting a consistent approach in the development and management of infrastructure proposals across the government sector to enable business to efficiently deploy both capital and resources with confidence and within a regime of rational commercial terms and risk profiles that attach to each project.
- Conducting regular audits to identify emerging capacity constraints and gaps in infrastructure provision.

3.1 Unsolicited Proposals

Ai Group welcomes the Government's delivery of its election commitment of establishing processes to enable the evaluation of unsolicited proposals from the private sector. This will assist in maximising the development of new assets and encouraging industry to submit innovative proposals to meet Western Australia's needs in the provision of infrastructure, products and services. The market-led process also has the potential of reduce tender costs for industry and government by reducing the need for an open tender procurement method which typically involves a more prescriptive approach and lengthy time frame. These are key factors which make it difficult for local industry to compete for Government work, particularly SME's and new entrants.

It will be important that the evaluation process establishes and maintains clear rules of engagement for industry; provides advice and clear guidance during the pre-qualification review on how proposals may need to be modified; is conducted in a timely and efficient manner without comprising on the rigour and integrity of the decision-making process and; provides regular feedback to proponents on progress, emerging issues or reasons for decisions not to proceed.

Also, of importance is the need for appropriate safeguards relating to the protection of intellectual property rights, including copyright of material and commercial in confidence material provided. Where the Government decides not to proceed with a proposal, and wishes to use the intellectual property, there should be provisions allowing for appropriate payments to be considered. Furthermore, it is important that private sector proponents are reimbursed for information provided at any stage of the assessment process if it forms the basis of a Government agency's subsequent request for tender.

3.2 Infrastructure funding

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.

This highlights the need for improved access to private funding as well pro-actively seeking Federal funding to ensure that critical infrastructure is progressed in a timely manner. One means of achieving this is through the further development of structured public-private partnership policies that can lower the risks faced by private investors thus attracting more private sector investments while reducing upfront costs to the public. The Government should also 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 service delivery standards and asset protection on behalf of the people of Western Australia. Outsourcing of services also enables the Government to focus on its core activities.
- examining the role of congestion charging on WA's toll road network. This form of user pay road funding model is a positive option for addressing traffic congestion issues while also helping to fund the delivery of infrastructure projects in the medium term.
- recovering the cost of public infrastructure investment by capturing some or all gains in land value that result from infrastructure investment through adoption of the land value capture financing approach.

4. Skills Development

The development of the skills of the current and future workforce 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 are as follows:

- Implement measures that raise the level of STEM education at the primary, secondary and tertiary levels to meet future employment needs;
- Support the development of a national STEM skills strategy in conjunction with industry to expand the STEM qualified workforce;

-
- 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;
 - Increase the investment in digital skills across the education and training sectors to meet the increasing digital needs of the workforce and;
 - Support the implementation of measures to achieve full national consistency for all apprenticeships across Australia, including consideration of an oversighting body to ensure programs and arrangements meet current and emerging occupational needs.

4.1 Support for building company skills and training capabilities

Strategies are also required to meet the specific needs of SMEs given their prominence in the economy. The Western Australian Government could support these companies via networks or clusters and engagement with group training companies. Support for sectoral and supply-chain companies working with larger companies also warrants consideration.

The rapidly changing business landscape is putting pressure on companies to re-skill and up-skill existing workers to take advantage of growth opportunities, adapt to the digital economy and create new jobs. A successful model for supporting companies to develop and implement workforce development plans in line with new strategies is needed.

The Ai Group encourages the introduction of a scheme, similar to the previous Industry Skills Fund that delivers expert advice and information on workforce development planning and skills opportunities, including addressing digital skill needs; language, literacy and numeracy issues, leadership and management challenges and other unmet demand for training to assist company growth.

4.2 Addressing youth unemployment

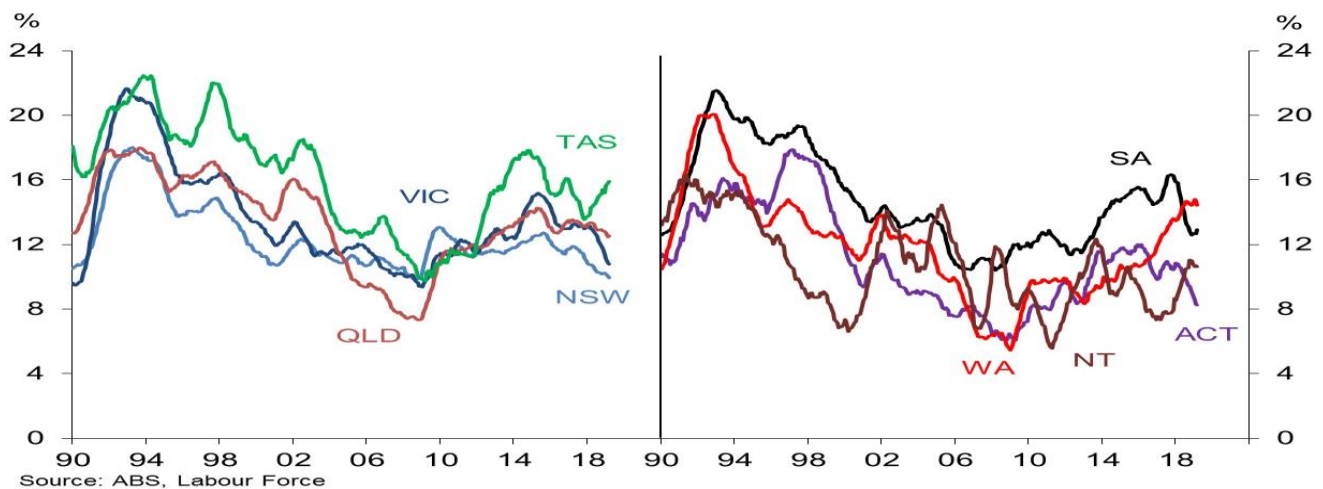
There are many barriers to employment for young people. Lack of experience and work-readiness are commonly cited examples. Equipping individuals with the right skills that enable them to more fully participate in the workforce and understand the dignity of work can be achieved by keeping young people engaged in learning and providing alternative pathways to employment and further education.

Australia's youth unemployment trend rate in March 2019 of 11.4 per cent is more than double the overall national unemployment trend rate of 5.0 per cent. In Western Australia, the youth unemployment rate on a smoothed 12-month average basis is 14.4 per cent, the second highest of all States after Tasmania (15.9%). See chart 1.

More young people are now reporting a desire to work more hours, which is resulting in an increase in the national youth trend underemployment rate, currently at 17.2 per cent. This

coupled with the unemployment rate represents a significant growth in the underutilisation rate (at 28.6 per cent) of younger persons in the economy.

Chart 1: Youth unemployment rates in Australia - aged 15-24, annual averages



Young people not engaged in employment, education or training (NEET) face the prospect of a lifetime of social and economic disengagement. One in five young Australians between the age of 16 and 24 years spend more than twelve months not in employment, education or training, and longer periods are more frequent for those with lower educational attainment, young women and Indigenous youth.¹ The Australian Bureau of Statistics' 2018 *Survey of Education and Work* reveals that there are presently over 286,000 persons aged 15 to 24 years not engaged in study or employment.²

The VET system plays an important role in providing vocational and career pathways to further study and employment, through programs like VET in Schools and apprenticeships and traineeships, particularly for young people most at risk of disengagement from school. The attraction to vocational education and training, and in particular apprenticeships and traineeships has been declining among young people.³ Year 13, for example, reports that 56 per cent of students still do not consider an apprenticeship when leaving school.⁴

Managing the transition from school to a life beyond can be a difficult path for many young people to navigate without the right support and guidance. Sixty-eight per cent of young Australians say that school does not prepare them for the real world.⁵ It is essential that adequate support is applied while in school and is readily available at the point of and beyond transition from school, with timely follow-up and after-care services provided by schools.

¹ OECD (2016), *Investing in Youth: Australia, Investing in Youth*, OECD Publishing, Paris, p.20.

² Australian Bureau of Statistics, 6227.0 - Education and Work, Australia, May 2018.

³ NCVET (2018), Apprentices and trainees <https://www.ncver.edu.au/research-and-statistics/collection/apprentices-and-trainees-collection>

⁴ Year 13 (2018), *After the ATAR II: Understanding How Gen Z Make Decisions About Their Future*, p.13

⁵ Year 13 (2018), *After the ATAR II: Understanding How Gen Z Make Decisions About Their Future*, p.30

It is important to equip those at-risk of disengagement with the necessary life skills to survive and thrive in the new economy. Developing capabilities around interpersonal, creative and decision-making tasks will be beneficial in finding employment in jobs where routine and manual tasks are increasingly performed by machines.⁶

To address youth unemployment, Ai Group calls on the Western Australian Government to:

- Increase investment in programs that prepare students for work and transition to the post-compulsory years while at school.
- Tailored mentoring and coaching for new entrants to the labour market.
- Fund programs to help young people deal with health and wellbeing challenges faced when moving out of the school environment.
- Fund transition programs for unemployed young people that increase involvement by industry through work-based activities.

5. Innovation and industry development

The WA Government has a key role to play in supporting innovation by providing funding support for research and development; increasing STEM awareness and uptake; delivering policies that encourage innovation and; ensuring that the regulatory environment is supportive of regulation and is consistently applied.

We strongly support the Government's pro-active role in helping to stimulate 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 WA is to maintain its competitive standing. A strong growing and innovative state means that all people of WA benefit through both jobs and the opportunities and the creation of new and improved services. In this respect, we highlight the following specific priorities for innovation:

- Provide a stable, workable and predictable policy environment that incentivizes investment in innovation and encourages intellectual property (IP) and its flow-on benefits to fully captured to maximize the creation of jobs and wealth in the state.
- Ensure that state research priorities are clearly articulated and that there is a strategic long-term view to pursuing and implementing these priorities.
- Maintain a focus on building collaborative links between researchers and industry.

⁶ AlphaBeta, *Mapping Australian workforce change*, 2018

-
- Ensure that innovation policy is founded on initiatives which are open and accessible to all sizes of businesses from all sectors with an emphasis placed on the generation of commercial outcomes.
 - Improve workforce STEM skills and innovative capability.
 - Increase funding for measures that improve the flow of private capital to innovative businesses and increase collaborative opportunities between businesses.

5.1 Digitalisation, industry 4.0 and business capability

Digitalisation and Industry 4.0 are rapidly transforming practices across businesses and industries. Federal initiatives in this space, including through the Entrepreneurs' Programme, are useful and the WA Government should collaborate with them where possible.

Regular discussion of the future of industry between government and a wide array of stakeholders is essential to spur, inform and improve high quality industry policy. The Industry 4.0 Advanced Manufacturing Forum, chaired by Ai Group and bringing together stakeholders from industry, academia, unions and key institutions, is playing a valuable role and State Governments should engage with it, as does the Federal Government.

Governments have an important role in providing strong leadership by actively encouraging and demonstrating the importance of digitisation and how it can be implemented and facilitating business investment in digital capabilities. We recommend that the WA Government introduce a state-based funding program to assist businesses in developing a path for the adoption Industry 4.0 type capability. The program should be aimed at SME's who are often constrained in their growth by lack of technology capability and access to finance. The focus would be on providing guidance and financial support to allow SME's to more effectively exploit the benefits of digital manufacturing and better integrate supply chains based on stronger data flows. Funding could be directed to companies on a dollar for dollar basis up to a maximum \$50,000.

The Industry Capability Networks operated in each State are important resources but would benefit from a review to determine how to maximise their value through modernization, integration with widely used digital platforms or other means.

In supporting opportunities for local industry participation, we believe that the State Government should make greater use of the Industry Capability Network (ICN) in helping to build local industry capabilities and sourcing opportunities through:

- identifying import replacement opportunities in purchases of all Government agencies;
- assisting in the formulation of Government procurement documentation by reviewing and advising on local industry capabilities and skills to ensure that requirements and/or specifications do not unnecessarily preclude local businesses from bidding;

-
- conducting pre-tender briefings for Government purchasing agencies on local sourcing opportunities and;
 - acting as an intermediary between Government and local industry following the awarding of a contract, to provide feedback on strengths and weaknesses of tender documents, capabilities and other areas that may enhance future submissions.

5.2 Other specific initiatives to assist in lifting the growth potential of WA businesses

Ai Group also believes that significant benefits could be achieved through the following initiatives:

Driving innovation through procurement policy. Ensuring that government procurement opportunities have significant flexibility and focus on project objectives 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.

The NSW Government’s Procurement Innovation Stream is an effective means of allowing accredited Government agencies to trial innovative products and services offered by SME’s. Agencies can engage a small or medium sized enterprise through direct negotiation on short term contracts valued up to \$1 million (including GST) to do proof-of-concept testing or outcomes-based trials, subject to meeting various conditions, including that the supplier agrees that the agency can publish a report on the outcome of any trials. We believe that that the WA Government should give consideration to establishing similar procurement arrangements to build the capacity of local SME’s businesses to have a greater role in the delivery of Government services and deliver more value for the State from government tendering.

Providing support for regional and metropolitan cluster initiative programs that would direct financial and other assistance to individual cluster initiatives. The collaboration of related or complimentary businesses in the same areas can lead to a range of benefits such as access to a larger pool of skilled labour, improved supply chains, knowledge sharing in key areas such as best practice and innovation, and opportunities for businesses to collaborate as a supply chain of products and services. It would also assist in allowing businesses to jointly bid on projects and; improve the competitiveness of the local manufacturers against large overseas businesses that can offer a “one-shop” solution and greater capacity to deliver on major projects. Cluster initiatives can also be aimed at encouraging suppliers able to jointly pitch creative ideas to solve Government challenges.

Assisting SME’s to develop design led innovation capabilities 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. It would also assist in driving upgrades in technical, design, cost and quality capabilities to meet customers' supply needs.

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.

Promote innovation through taxation measures and other incentives. We would encourage for instance the consideration of such measures as payroll-tax holidays for start-ups and new businesses; regionally-based incentives to support growth in designated areas, such as tax holidays, or assistance and incentives to set up new businesses and; incentives to develop greenfield land, such as expedited planning processes.

6. 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 account of 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.

We recommend that the Government set up **better mechanisms for small business to access "clustering" that might allow them to be a genuine player in accessing government work.** The size of government contracts often requires a large corporation or a consortium of corporations to handle the scale of work. The sheer scale and complexity of some government contracts can preclude small businesses having the resources and capacity to tender for work. The process

needs to be simple and coaching and support needs to be made available for small businesses to help them navigate the paperwork.

Similarly, there needs to be **thorough and well documented feedback at every stage of the procurement process so unsuccessful businesses can keep building their knowledge and capability to be “government ready”**. On some contracts there may be capacity for an interim tender process that allows small businesses to establish their credentials. Once they are considered a genuine contender for the work, they could be supported with coaching or grants to give these businesses the capacity to do a full tender for the work.

Industry groups could be better used to help communicate the availability of government work and inform members of any opportunity to form clusters to tender for larger work programs. This needs to be done with sufficient notice for businesses to do the necessary research.

Of further importance is the need for Government to 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.

7. Regulatory Reform

Ai Group welcomes the State Government’s proposed reforms aimed at reducing the regulatory burden on small businesses with a view to increasing innovation, employment opportunities and the competitiveness of the Western Australian economy. In this context, the Government must recognise that there are great benefits from consistency of rules across jurisdictions. As such, there needs to be a focus on achieving genuine harmonisation of state-based laws (or centralisation of laws to the Federal level) by developing and reviewing regulatory instruments in concert with other state and territory governments.

We note the Government established the Service Priority Review in May 2017 to provide a blueprint for reform of the functions, operations and culture of the State’s public sector. This is an important initiative in progressing public sector efficiency gains and lifting productivity in the delivery of services for which it takes responsibility. We support the Panel’s recommendation to drive regulatory approaches that are risk based and outcomes focussed. Such approaches are

constructive and proactive allow room for innovation and “breakthrough” improvements in industry performance and have the potential to lower cost and other burdens on industry.

We also endorse the Panel’s recommendation of adopting a regulatory framework that is based on the principle of regulatory stewardship. The adoption of an approach whereby regulations are subject to proactive monitoring and reviews by responsible department and agencies should help to ensure that both existing and new regulations are well targeted and proportionate so that costs are minimised for both business and the community.

In driving more effective policy outcomes, there is also considerable merit in assigning responsibility of regulatory policy to a Senior Minister to advocate regulatory policy reform within Cabinet drawing on advice and assessments from an independent body or well-resourced regulatory function. This was key recommendation arising from the NSW Regulatory Policy Framework Review Panel’s Draft Report for Consultation, May 2107. This would assist in raising the level of Ministerial oversight and provide a clear signal to businesses and the community that the WA Government is committed to better regulatory outcomes. An independent regulatory review and decision-making body would have a key role in raising the quality of the WA Government’s regulatory review process and policy making practices by ensuring broad-based agency compliance with regulatory best practice and identifying opportunities for further regulatory reforms.

To further drive regulatory best practice, 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). Aligned to this, there is considerable merit in ensuring that WA regulators at all levels of government with regulatory agencies undergo regular ‘health checks’ to ensure these agencies are efficiently implementing regulations and not imposing an additional and unnecessary burden on businesses.

There also needs to be a continued focus on the removal of regulatory duplication between agencies and the pursuit of best practice principles such as:

- Businesses should only have to supply information that is necessary (and unavailable from other sources) and not multiple times.
- Adoption of a process of testing whether regulatory requirements actually contribute to behavioural outcomes sought.
- Claims of reduction in regulatory burden should be externally validated by a process that includes industry-based feedback and assessment.

7.1 WA Licensing Review

Ai Group supports the State Government’s decision to conduct an inquiry into the reform of licensing in WA with a view to identifying common or significant problems in the way regulatory

agencies manage state government business licences. Feedback from Ai Group members indicates that the principal issues of concern in relation to licensing include the lack of information, lack of consultation on the impact of licensing, time delays in receiving approvals and the multiplicity of licensing requirements. We commend the recommendation of developing a licensing evaluation and reform unit as part of business Licensing Framework. It will be important that all listed licences are scrutinised even if they haven't been identified as a priority for licence reform to ensure a comprehensive assessment of licences. It is also recommended that regulatory agencies work together to develop and implement broadly-based master licence for business, subsuming all commonly required licences and permissions in one instrument.

7.2 New and Emerging Technologies

From digitalization to decarbonization, major waves of change bring novel and transitional challenges along with the opportunity to increase shared national prosperity. New and emerging technologies such as AI, augmented reality, drones and robotics can benefit business and the community through improved services, higher productivity and greater quality of life. But they can also present challenges to traditional ways of doing things and have costs that are more concentrated than benefits, though lower. This raises demands to manage or even halt change, such as through heavy regulation or bans.

Thoughtful strategy and credible policy responses from governments and regulators are important to plan for and respond to economic and technological change in ways that will meet community expectations. Making the most of new technologies requires room to experiment and learn, particularly where the technologies involved have the potential to be low-cost and widely distributed, like additive manufacturing, encrypted communications and CRISPR gene editing.

Highly reactive or overly change-averse responses risk curtailing innovation, reducing competitiveness and limiting the benefits of developments like digitalization. Policy and regulatory vacuum is likely to provoke subsequent hasty overreaction to any problems that emerge. Regulation has a role in addressing reasonable public concerns, for instance around security, safety, privacy and the environment. But there are also often alternative approaches to the regulatory "stick", including consultation and dialogue, codes of practice, transitional support and education. Where regulatory measures are warranted they still need careful development.

The Western Australian Government should proactively consult about major technological and economic changes; consider the full range of options for response; adopt regulatory responses only where they are proportionate and likely to provide net community benefits; and develop any regulatory response in full consultation with affected stakeholders.

8. Standards and Regulation

Australia does not have adequate laws and enforcement in place to ensure that products sold to industry and the public meet applicable standards and are fit for purpose. This has been a source of increasing disquiet, particularly given high profile failures in relation to the construction sector. The Western Australian Government should proactively participate in national efforts to address nonconforming product in the building sector and coordinate action with other jurisdictions and industry to achieve safer outcomes for the public and a level playing field for suppliers who do the right thing. There has also been a tendency for government to move away from the use of Australian standards. While international consistency and efficiency have value, international standards development processes do not necessarily offer Australians an adequate voice or reflect local conditions and needs. **Caution is needed.**

9. Taxation Reform

Establishing the right tax structure is one of the most important reforms that Government can implement to support growth and investment and to achieve long-term job creation and budget repair.

In making this a priority, the Government must work towards substantially improving the competitiveness of the state's payroll tax regime. This requires an on-going commitment to the progressive reduction in the payroll tax rate. 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.

We also encourage the WA Government to investigate alternative ways to finance the removal of the most inefficient state taxes. One option is to remove residential and commercial stamp duties by more fully utilising the existing local government land rate system or by reforming the state government land tax base. Stamp duties are inefficient transaction-based taxes that distort economic activity. 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.

Additionally, we recommend that land tax rates be lowered, particularly for higher property values as part of a broadening of the tax base. This would ensure the state has a more efficient and reliable revenue source.

A broadening of the land tax base would provide the Government with more scope to take further action to abolish or at least reduce the inefficient "nuisance taxes" that are a large source of direct state revenue. This includes motor vehicle and insurance stamp duties and other levies and licence fees.

A review should be undertaken of current exemptions and concessions that apply to taxes with a view to reducing complexity and adopting consistent approaches across states. This is needed to minimise the administration and tax compliance costs imposed on businesses and the economic distortions that can be created.

State Governments can perform a vital task in addressing Australia's system of inefficient state taxes (despite the issues of Commonwealth-State financial arrangements) by collectively working towards real and meaningful harmonisation of taxes, fees and levies on business (such as stamp duties, land tax and motor vehicle duty). This is critical to minimising the complexity and reducing the compliance costs for businesses operating across multiple jurisdictions.

We urge the WA Government to take a leadership role in driving holistic taxation reform with a view to achieving real and meaningful harmonisation of taxes, fees and levies on business (such as stamp duties, land tax and motor vehicle duty) operating across multiple jurisdictions.

10. Environment and energy

Climate policy presents a particularly important industry transition challenge. Global efforts to combat climate change will ultimately require net emissions of greenhouse gasses to reach net zero or below in most countries, including Australia. This transition will take decades and entail substantial changes in technology and practices across many sectors. This creates both economic opportunities for new products and industries, as well as vulnerabilities where existing industries may experience a challenging transition or exit.

Western Australia should develop and resource a strategy to seize the economic opportunities and manage the vulnerabilities. Bioproducts, carbon capture use and storage, electrification, hydrogen products, solar, wind and more present chances for new industries and the successful transition of existing industries. Coordinated policies, supporting infrastructure, and commercialisation finance can support growth and manage the considerable uncertainties. Any climate policy should ensure that assistance arrangements for trade exposed industries achieve trade neutrality and support decisions on longer term investments by those industries to decarbonise.

Some sectors are likely to contract over time, including at least the closure of many older coal-fired power stations. These closures have wider impacts, including on direct employees, the supply chains in which closing facilities are embedded, and the communities and regions in which they are located. Ai Group agrees with global business and labour organisations that a 'Just Transition' is needed for these sectors. To that end the next Government should work with industry, unions, States, local government and community organisations to develop effective and proactive responses to anticipated closures or transitions of existing emissions-intensive facilities.

10.1 Waste Policy

Waste reduction, materials efficiency and the ‘circular economy’ present important opportunities over the long term, while Australia also faces an ongoing crisis as our waste and recycling systems are roiled by China’s clampdown on the contaminated plastics we previously exported for processing. Ambitious National Waste Policy targets for improved waste outcomes need to be supported by effective policies and investments, including:

- Support for innovation and commercialisation of technology options to close materials loops and utilise waste products, and improved technologies for automated waste sorting;
- A coordinated push to revise standards at all levels to encourage, rather than discouraging, the use of recycled content which performs adequately;
- Improved education of the public to encourage better sorting and reduced contamination;
- Encouraging the use of recycled materials in government procurement where appropriate, and reduction of regulatory and institutional barriers to such usage (such as replacing materials requirements for infrastructure with performance standards); and
- Effective and efficient pricing of waste-related externalities.

11. Fiscal Policy

Ai Group commends the Government’s commitment to sound financial management. An uplift in State revenue from GST reform, a recovering economy and expenditure containment have helped to establish a more sustainable path for WA’s finances over the medium term. This is highlighted by a projected return to an operating surplus of \$1 billion in 2019-20 and an improvement in WA’s debt outlook.

WA businesses will be looking to the Government to continue to achieve operating surpluses and debt positions through responsible and prudent fiscal management - consistent with the State's upgraded credit ratings outlook. This will require ensuring that recurrent spending is covered by recurrent revenue. It will equally require 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 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 WA community.

A key challenge in framing the 2019-20 Budget will be in balancing the Government’s commitment to fiscal discipline with the need to stimulate much needed confidence and on-

going growth through targeted productivity-enhancing initiatives, infrastructure investment and skills development.

For the medium and longer term, the fiscal direction is clear. Investments that build on and create new opportunities provide their own rewards. These come in the form of a larger tax base, a larger net revenue stream and a greater capacity to finance future public sector services and investment.

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

- continue to **target to achieve operating surpluses** (adjusted to the state economic cycle and fluctuations in demand) and sustainable debt positions without resorting to higher taxes and charges.
- **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 funding for investment in the drivers of WA's competitiveness** such as innovation, research and development, infrastructure, exports and skills.

Other recommended initiatives that would contribute to achieving value for money and cost effectiveness in service delivery include:

- **Promoting improvements in the delivery of government programs** and service by broadening contestability and evaluating agencies activities for opportunities for greater exposure to competition from the private sector.
- **Undertaking regular cross-agency reviews of spending priorities.**
- **Exploring opportunities for franchising and other funding models such as outsourcing.** This should be done 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 service delivery standards and asset protection on behalf of the people of WA.
- Continue to **examine opportunities for the transfer of public sector assets to the private sector to streamline service delivery**, pay down debt and allow for the recycling of capital to fund vital road, rail, health, utility and other social infrastructure projects.