Submission to the Productivity Commission

Inquiry into Transitioning Regional Economies

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1. Introduction

The Western Australian Local Government Association (WALGA or 'the Association') is the united voice of Local Government in Western Australia. The Association is an independent, membership-based group representing and supporting the work and interests of all 138 mainland Local Governments in Western Australia, plus the Indian Ocean territories of Christmas Island and Cocos (Keeling) Islands.

The Association provides an essential voice for over 1,200 elected members and approximately 14,500 Local Government employees as well as over 2.6 million residents of Western Australia. The Association also provides professional advice and offers services that provide financial benefits to Local Governments and the communities they serve.

The Association is grateful to the Productivity Commission for the opportunity to provide a submission in response to the *Inquiry into Transitioning Regional Economies.*

As one of the key beneficiaries from the mining investment boom, the downturn has been acutely felt in local communities in Western Australia. The impact has not been confined to the regions, but has been felt more broadly across the state.

While the tough economic conditions are expected to persist for a number of years, WA is likely to make a successful transition from the resources boom given that it is well placed to leverage opportunities beyond resources extraction created by the developing Asian region.

However, there are some challenges that need to be addressed to ensure that this transition does occur successfully. It is important that all levels of Government work together to ensure the policy environment supports the development of new drivers of growth and the diversification of our economy.

With a presence in all communities across the state, responsibility for key regulatory activities such as planning and development and a significant proportion of public assets under management, Local Government is a major player in the local and State economy. Local Government can therefore play an important role assisting with the successful transition and diversification of the WA economy.

This submission provides feedback on the impact of the mining investment downturn on the Western Australian economy and local communities. It also identifies key considerations from the perspective of local government that will be important to assist in the economy's shift to broader based growth.

Due to meeting schedules, this interim submission has not yet been endorsed by the Association's State Council. The Productivity Commission will be informed of any changes to the Association's submission following consideration by the Council.

2. Executive Summary

As one of the key beneficiaries from the mining investment boom, the economic downturn has been acutely felt in local communities in Western Australia.

Western Australia has been suffering from weaker conditions as investment activity unwinds, with labour market conditions poor, and the domestic economy firmly entrenched in recession.

The downturn has not just been limited to the resources sector, but has been felt broadly across the economy. The weaker demand conditions, low levels of confidence, and relatively high Australian dollar have all meant that non-resources sectors of the economy have not yet filled the gap in activity as investment unwinds.

Geographically, the downturn has not been confined to areas where there are mining operations, such as the Pilbara, Mid West, Goldfields Esperance and Kimberley. While these areas have certainly been affected by the slowdown in activity, other areas of the state with related industries or a significant fly in fly out workforce have also suffered the effects of the downturn.

Looking forward, conditions are expected to remain challenging in the short term, as major mining projects reach completion and the non-resources sectors of the economy remain subdued. However, the longer term prospects for WA are sound, with the state well placed to take advantage of opportunities created by the continued strong growth in developing Asian economies, in sectors such as agriculture, and consumer services such as education and tourism, which will help to diversify the economy.

While WA is well placed to make a successful transition away from mining led growth, this is by no means assured. There are a number of challenges that will need to be overcome to ensure that other sectors of the economy can make a greater contribution to economic activity.

To facilitate the diversification of the economy and the emergence of new drivers of growth, all levels of Government need to work together to create an environment that encourages investment and leads to productivity and economic growth. It is important that the policy focus is not around ‘picking winners’, but instead about creating an environment that will improve the efficiency and competitiveness of the economy in general.

While many of the reforms that will facilitate this lie at the Commonwealth or State level, Local Government can play an important role to ensure the WA economy can successfully transition away from resources led growth. Local Government is a major player in the state economy and is well placed to work with other levels of government to implement key reforms that will ensure WA can diversify its drivers of economic growth.

There are a number of important areas of reform that must be addressed to ensure WA’s successful transition away from resources investment led growth.

- **Budget repair** must be a priority for both the Commonwealth and State Governments, to reduce pressure to raise taxes on the community which would damage our international competitiveness. In undertaking the task of fiscal report, it is important that affected stakeholders are consulted to ensure that taxpayer dollars are directed to priority areas. It is also important that spending cuts don't result in cost-shifting to other sectors, including the Local Government sector, which would serve to reduces the resources available to the sector to devote to key community service and infrastructure that can assist with the economic transition.

- **Removing constraints on local governments' ability to raise own-sourced revenue or manage assets** in the best interests of their communities will ensure the sector can effectively deliver on its role in facilitating the economy's transition. This should focus on deregulating fees and charges, and legislative change that would allow for the use of more flexible and innovative methods to deliver services, including Council Controlled Organisations.

- The **new timeframes introduced by the State Government for Local Planning Scheme and Scheme amendment processes should be monitored** to ensure that they are delivering on more streamlined processes to facilitate new developments. This is particularly important to ensure that the planning system does not act as a barrier to the development of new industries when the proposed activities do not fall within the permitted land uses identified under existing Local Planning schemes.

- Addressing infrastructure constraints – particularly in regional areas of the state – will be an important way to facilitate the diversification of the WA economy. The development an **infrastructure plan for the state** is an important step to improve infrastructure planning and prioritisation and address infrastructure constraints, while **additional funding support will also be needed to address the local infrastructure backlog** given the constraints on the ability of Local Governments to raise own sourced revenue**.** Investment in infrastructure should focus on projects that will improve productivity and create jobs over the longer term.

- Reforming the tax system is an important way to boost productivity, and improve our international competitiveness. While it will be difficult to achieve major changes such as addressing the high degree of vertical fiscal imbalance due to the weak Commonwealth and State budget positions, **reforms can be made within the existing tax system** that will improve efficiency and encourage investment and economic growth in the short term. These should focus on **removing exemptions on local government rates** that cannot be justified**; abolishing transfer duty** on property; and **increasing the payroll tax exemption threshold**.

- Education and training must be directed towards the skills requirements of our future industries to ensure that the workforce is capable of supporting future growth. There must be a **focus on re-skilling and retraining the existing workforce** to areas of future growth such as healthcare and education and training. **Local Government can assist in this task through the public library system and economic development and business incubator activities.** The current use of 457 visas should also be reviewed to ensure that the current occupation list is appropriate for the economy in a post-mining boom environment.

- Strategies are needed to ensure that growth opportunities for WA such as agriculture and tourism that are in located in regional areas of the state can access the workforce they need. While fly in fly out workers have been an important way to meet the state's labour needs, WALGA supports measures to encourage the establishment of a larger residential workforce in regional areas given the significant pressures large service populations place on regional local governments. **Restoring the value of the Zone Tax Offset** is one way to achieve this.

- WA's future growth will also require a focus on increasing the size of the workforce going forward, through **strategies to increase workforce participation among diversity groups** that are typically under-represented in the workforce such as women, people with a disability and Aboriginal Australians.

3. Defining the mining boom in WA

Western Australia has experienced a period of extraordinary economic growth in recent years in line with the mining investment boom.

While it is difficult to precisely define the mining boom, it is considered that it commenced in the early 2000s (around 2002), when the prices of key commodities started to rise on the back of strong global demand – particularly from China. This followed a decade where commodity prices had remained subdued, which had led to under investment in resources capacity.

The sharp increases in commodity prices spurred significant capacity expansions by the resources sector, which underpinned a surge in business investment. In the 10 years to 2012, business investment increased more than four-fold, or by more than $60 billion. As result, the state's economy grew by almost 70 per cent, or $$87 billion during this decade.

While the resources boom created significant wealth for the state, it also brought with it a range of challenges in the form of capacity constraints. In particular, labour shortages were a key issue affecting the local economy and saw significant increases in wages and the cost of doing business in the state.

While resources cycles are not a new phenomenon for WA, the recent mining boom was significant to the extent that commodity prices remained high for an extended period of time. This created a sense among the community that boom conditions were the 'new normal' for WA.

Further, the resources boom helped to insulate WA – and the nation more broadly – from the impacts of the 2008 global financial crisis. Although economic growth did slow, WA avoided a recession due to the significant amount of construction activity that was already under way. WA's economy still grew by 3.4% in the 2008-09 financial year (compared to 5.2% in the previous year), while much of the developed worked fell into recession.

While the resources boom has created considerable benefits for WA, it could never be sustained indefinitely, as projects inevitably reached completion and commodity prices fell new supply came on stream. However, the timing of the end of the resources boom was perhaps sooner than expected, as the increase in supply coincided with a fall in global demand. As a result, the fall in commodity prices was faster and steeper than had initially been expected. While commodity prices had been fallings since 2011, the rate of decline accelerated during 2014, and saw the US dollar spot price for iron ore fall by around 50 per cent during the year, and 65 per cent since its peak in early 2011.[i]

With the boom years now behind us, WA needs to adjust to a new economic reality. We will not be able to replicate the exceptional rates of economic growth recorded in the decade leading up to 2012. The focus should instead be on a managed adjustment in the economy to more sustainable long term growth, which is underpinned by improvements in productivity.

4. Impact of the mining downturn on WA's economy

Key Findings

- **As a major beneficiary of the resources investment boom, Western Australia has also been suffering from weaker conditions as the activity unwinds, with labour market conditions poor, and the domestic economy firmly entrenched in recession.**

- **The downturn has not just been limited to the resources sector, but has been felt broadly across the economy. Other sectors of the economy still remain weak, and have not yet filled the gap in activity created by the mining sector.**

- **The performance of the economy in the short term has been hampered by a number of factors including low levels of confidence and the relatively high Australian dollar.**

With the mining investment boom peaking in 2012, conditions in the WA economy have deteriorated significantly in the subsequent years. The WA economy recently recorded its slowest rate of economic growth in 13 years, with Gross State Product increasing by just 1.9% in the 2015-16 financial year, which is considerably lower than the annual average growth rate of 5.5% recorded in the 10 years to 2012.

While WA has technically avoided a recession, the main driver of growth has been exports, which increased by 6.1% over the past year. This is due to the ramp up in activity that has occurred as the completion of major mining projects has meant that new capacity has come on line. Exports have grown on average by 8% per annum over the past five years.

The ramp up in exports has been reflected in the increasing volume of cargo through the State's major ports. For example, volumes through Port Hedland Port reached a record high level in November 2016, with a monthly throughput of 44.5 million tonnes – a 17% increase from the previous year.[ii]

The strong increase in exports has masked the extent to which conditions in the domestic economy have weakened. The domestic economy is firmly entrenched in recession, and has contracted for the past three years. In 2015-16 the domestic economy, as measured by state final demand, declined by 4%, following decreases of 3% and 2% respectively in the prior two years.

Not surprisingly, the contraction has been driven by business investment, which has fallen by $26 billion since its peak in 2012. Business investment has fallen on average by 12.7% per annum over the past three years, in line with the completion of major resources projects. These include Chevron's Gorgon $43 billion LNG project; Woodside's Pluto LNG project; Citic Pacific's $12 billion Sino Iron Ore Project; Hancock Prospecting's $10.5 billion Roy Hill Project and Woodside's $5bn North Rankin LNG project, to name just a few.

The downturn has not just been confined to resources sector activity, but has been experienced across the broader WA economy. With sectors outside of mining still subdued, the WA economy has not yet successfully transitioned away from resources-led growth. This perspective was reinforced in research by the Bankwest Curtin Economics Centre, which shows that the industry profile in WA has become less diversified over the course of the mining boom and throughout the post-boom years.[iii]

In particular, activity in consumer facing sectors has been subdued in recent years. The retail sector has suffered as consumers have held back on major spending decisions. Household final consumption grew by just 1.4% in 2015-16, compared with growth rates in the order of 5% recorded during the boom years. As a result, retail turnover has grown by just 0.7% in annual terms on average over the past year, which compares to the double digit increases that were experienced throughout 2006 and 2007 when the economy was recording strong growth.

The housing sector in WA has also been weak, with dwelling investment growing by just 0.2% in 2015-16. While this sector of the economy is smaller and more volatile than others, on average annual growth was running in excess of 3% in the 10 years to 2012. Other indicators of the housing market also demonstrate this weakness, with the average days taken to sell standing at 67 in September 2016, up from the most recent low of 49 in September 2013. The stock of listings has also been growing, with 14,163 properties on the market in September 2016, compared to the most recent low of 8,261 in March 2013.

One of the primary factors that has delayed the improvement in the non-mining sectors of the economy has been the persistent low levels of confidence. This reflects the ongoing worries about the state of the domestic economy as the mining boom unwinds.

For consumers, one of the key factors weighing on confidence has been the concerns about the impact of the downturn on their own personal situation. Recent surveys of consumer confidence in Western Australia show that sentiment about the WA economy has been in negative territory for at least six years now.[iv]

In particular, consumer confidence has been dented by the deterioration in the labour market in recent years that has occurred as the mining investment boom has drawn to an end.

The labour market is perhaps the best indicator of the impact of the mining downturn on the WA economy. The state's unemployment rate now stands at 6.6% in December 2016 – well above the most recent low of 2.3% recorded in October 2008. WA now has the second highest unemployment rate in the country, just behind South Australia.

The softer labour market conditions have occurred as jobs have dried up. In December 2016, some 94,400 Western Australians were out of work, compared to the 28,700 people that were in the jobless queue when the unemployment rate was at its most recent low.

Overall, total employment has fallen by 20,170 over the past year with part time job creation insufficient to offset the 25,190 full time job losses over this period.

The deteriorating employment situation has had a significant impact on local communities, with reports that many workers are experiencing financial difficulty, and in some cases, homelessness.[v] The increasing financial pressure on WA families has been reflected in the number of bankruptcies, which as increased sharply in recent years. In Perth, the number of non-business related bankruptcies has increased on average by 17% per annum between December 2014 and September 2016. In regional areas of the state, this number is almost 11%.[vi]

While the official statistics have a significant and real impact on local communities, they don't capture the full extent of the impact of the downturn on the state's labour market. The headline unemployment figures do not capture the number of Western Australians that have given up job-hunting and dropped out of the workforce altogether. In this regard, the state's participation rate has fallen to 67.9% in November 2016, down from the rates in excess of 69% recorded during the mining boom years.

Similarly, the trend towards part time employment has meant that there are a significant proportion of Western Australians that have a job, but would prefer to work more hours. This is reflected in the underemployment rate, which has risen to 15.6% in November 2016, compared to the most recent low of 7.1% recorded in May 2008.

While Western Australians have understandably been worried about their ability to find work, this has been compounded by the wealth effects of the downturn with wages growth slowing and property prices falling. The wage price index for WA slowed to a record low level of 1.7% over the year to September 2016.

The impact of the downturn has also been clearly reflected in the housing market. More contemporary data is available which shows that prices are falling across the state in both metropolitan and regional areas. The median house price in Perth has fallen by 4.5% to $530,000 in March 2016, while in regional WA prices have fallen by 3.8%.

Confidence has also been affected by the considerable uncertainty that has been generated by the global economy. Just in the past year, Brexit, the election of Donald Trump, and concerns about China's growth prospects have been major causes of uncertainty. These have damaged confidence in WA, given that as a small and open economy we are susceptible to any changes in global conditions.

The weak conditions outside of resources also reflect the low levels of confidence among businesses, which has been in negative territory for at least six years.[vii] Operating conditions have been unfavourable for a number of years now, in line with the weaker demand conditions.

For external facing sectors such as tourism, education, and manufacturing, one of the key challenges has been the Australian dollar, which has remained stubbornly high.

Although the currency has fallen from the most recent highs where it reached parity with the US dollar, it has not depreciated to the extent that was expected as the mining boom unwinds. As a result, the boost to the international competitiveness of our local industries has not been as large as had been anticipated. The currency has remained stubbornly high as a result of the positive interest rate differential with the rest of the world, and commodity prices that have remained a relatively high levels. The Australian dollar is currently trading at around US$0.75 in January 2017, which is broadly in line with the long term average of US$0.76. Analysts at JP Morgan suggest that the currency is overvalued, and should track back towards US$0.68 by the end of 2017.[viii]

5. Impact of mining downturn in WA by region

Key findings

- **There is only limited economic data available at a regional level, which restricts the ability to accurately determine the regional impacts of the downturn.**

- **The economic downturn has not just been experienced in areas where mining activity occurs, such as the Pilbara. Other areas which have been linked to the mining sector through the fly in fly out workforce, or related industries, have also been affected by the downturn. These regions include the Perth metropolitan area, Peel, and the South West.**

- **Other regions of WA which are less closely tied to the resources sector have also been affected by the downturn, but to a lesser extent. These include the Wheatbelt and Great Southern.**

As there is only limited economic data available for regional areas, it is difficult to accurately determine the geographical impact of the mining downturn. In this regard, the data collected from the 2016 Census should provide a much more accurate statistical snapshot of the impact of the downturn on individual demographic groups and communities.

Nonetheless, the available data does suggest that the impact of the mining downturn in Western Australia has not just been confined to the mining areas, but has been felt broadly across the state.

Pilbara, Mid West, Goldfields Esperance, Kimberley

Economic growth in the mining regions of the state has remained strong in recent years.

The Pilbara region recorded the strongest growth of all regions between 2010-11 and 2014-15, with GRP expanding by more than $28,943 million over this period. As a result, the size of the economy in the Pilbara has more than doubled over this period.

Such strong growth reflects the ramp up in exports that has occurred as new capacity in the mining sector has come on stream. This has been reflected in throughput through the Port Hedland port, which has risen to 44 million tonnes in December 2016, up from 26.5 million tonnes in December 2014.[ix]

While the Pilbara has been leading the state, other resources regions have also recorded strong economic growth over this period. GRP in the Mid West grew by 63% (or $4,104 million), while the Goldfields Esperance grew by 43% (or $4,865 million). The Kimberley expanded by 11.3% (or $388 million) over the same period.

Despite strong growth in output being experienced in these areas, the end of the mining investment boom is affecting the local community. This has been reflected most clearly in terms of the regions' labour markets, which have deteriorated significantly over this period. In the Pilbara, more than 23,000 jobs have been lost over this period, representing a 27% fall in the region's workforce. As a result the unemployment rate has risen from 2.5%, to 3.1%.

There have also been significant job losses in the Mid West region, with the workforce contracting by 12% (or nearly 4,120 jobs lost) over this period. As a result, the unemployment rate has risen from 5.8% to 7.9%. In the Goldfield Esperance region, a further 2,015 jobs were lost between 2010-11 and 2014-15, which saw the unemployment rate rise from 6.4% to 8%.

In the Kimberley, the unemployment rate has risen to 18.1% in 2015-16 - which is the highest of all regions in the state, and has increased from 12% in 2010-11. Some 1,290 jobs were lost in the Kimberley over this period.

The other key area where the impact of the downturn is being felt is in terms of the housing market. There have been significant falls in median house prices in the key activity centres in the mining regions of the state. In the past year alone, the median house price has dropped by 25% in Karratha, 23% in Port Hedland, 19% in Broome and 16% in Geraldton.

The downturn has also meant that business activity in some of the state's resources centres has taken a hit. While the number of businesses in the Pilbara increased between 2010-11 and 2014-15, the downturn has been reflected in a drop off in the number development assessments being processed. In the Pilbara, the number of development assessments being processed through Development Assessment Panels fell from 33 in 2012-13, to just 10 in 2015-16.

Business activity has also deteriorated in the other resources regions. The number of employing businesses in the Mid West has fallen by 225 (or 2%) between 2010-11 and 2015-16, while in the Goldfields Esperance there are 325 fewer businesses (down 7%). There are also 220 fewer businesses operating in the Kimberley (down 8%).

Perth Metropolitan Area

Although mining activity is concentrated in regional areas of the state, economic conditions in the Perth metropolitan area have deteriorated in recent years as a result of the downturn in the state's resources sector.

Between 2010-11 and 2014-15, Gross Regional Product in the Perth metropolitan area expanded by just 3.5% (or $5,017 million). This implies that annual growth in the economy has been largely stagnant over the period, or in some years, may have contracted.

The poorer conditions do not come as a surprise given that it is the state's major hub of business and economic activity, and where the head offices of the major mining companies are located. Further, many of the sectors which supply mining and are directly affected by the weaker activity (for example, professional and technical services), are also located in the Perth metropolitan area.

In line with subdued rates of growth, the labour market in Perth has also deteriorated significantly, with the unemployment rate rising from 4.2% in 2010-11, to 4.9% in 2014-15. The bigger issue however relates to job losses. Around 170,400 jobs were lost in the Perth metropolitan area over this period, representing a 15.6% fall in the size of the workforce over this period.

The weaker labour market conditions are likely to reflect job losses in industries related to mining, as well as workers that are located in the metropolitan area but are employed in the mining sector on a fly in fly out basis.[x]

With economic conditions deteriorating, this has placed financial pressure on local households and businesses, and seen an increase in the number of insolvencies. Between December 2014, and September 2016 (the latest available data), the number of debtors with an insolvency that is non-business related grew by 17 per cent per annum on average. There were around 570 personal insolvencies in the September quarter of 2016, compared to 336 in the December quarter of 2013. These have been concentrated in Rockingham (up 24 or 54%), Wanneroo (up 34 or 64%), Belmont (up17 or 141%), Swan (up 18 or 50%), and Stirling (up 15 or 47%).[xi]

Business activity in the Perth metropolitan area has also been weak over this period, which has been reflected in a number of indicators of activity. The number of non-employing businesses in the Perth metropolitan area was largely stagnant over this period, falling by 442 (or 0.3%). In relation to business insolvencies in the Perth metropolitan area, these have increased by 19 per cent per annum on average over this period. Some 139 business related insolvencies were recorded in September 2016, up from the most recent low of 88 in June 2014.

Peel and South West

Between 2010-11 and 2014-15, the South West was the only region in WA where the economy contracted. Over this period, GRP fell by $254 million, or 2.3%. The Peel region however recorded modest growth of 6.4% (or $412 million) over the same period.

While the impact of the mining downturn has been directly felt in the South West and Peel regions given that there are significant mining operations, these regions have also been affected by the downturn given the significant fly in fly our workforce, and the strong population growth that occurred in these areas at the height of the resources boom as people looked to move to locations other than the Perth metropolitan area.

The weak economic conditions have also been reflected in the regions' labour markets. There were around 8,890 jobs lost in the South West region between 2010-11 and 2014-15, however the unemployment rate actually dropped from 4.5% to 4.1% - presumably as people gave up looking for work and dropped out of the labour force. The labour market in the Peel region has also deteriorated with more than 3,100 jobs lost over this period, which has seen the unemployment rate rise from 4.4% to 5.5%.

The housing sector has also deteriorated, with the median house price in Busselton down by 1.3% in December 2016 compared to a year earlier, while in Bunbury only modest growth of 0.5% was recorded. In the Mandurah-Murray area, the median house price fell by 4.8% over this period.

The business community in the South West and Peel regions have also been particularly affected by the mining downturn, with these areas recording the largest falls in the number of employing businesses between 2010-11 and 2014-15. The number of employing businesses in the South West fell by 577 (or 3.6%) over this period, while in Peel there was a 223 (or 2.8%) fall.

The more challenging economic environment has also been reflected in the number of businesses in the area, which has fallen in the period between 2010-11 and 2014-15. The total number of employing businesses in the Perth metropolitan area declined by 442 (or 0.3%) over this period. In the past year alone, the number of insolvencies in Bunbury has increased by 40%.

Other regions

Other regions of WA have also been affected by the downturn, but to a lesser extent. These are generally regions where the industry base is less closely tied to the resources sector

Between 2010-11 and 2014-15, the Whealtbelt economy grew by 11.7%, the Gascoyne grew by 9.1%, and the Great Southern grew by 2%.

The Wheatbelt and the Great Southern were also the only regions where the workforce expanded (albeit modestly) over this period. In the Great Southern, some 550 jobs were created between 2010-11 and 2014-15, a 2% increase. Similarly, a further 487 jobs were created in the Wheatbelt, which represents a 1% increase. As a result, the Great Southern and Wheatbelt also saw their unemployment rates fall between 2010-11 and 2014-15, to 3.8% and 3.3% respectively.

House prices in these areas have also been more favourable than in other areas of the state. For example, the median house price in Northam grew by 19.6% over the year to December 2016.

6. Prospects for the WA economy

Key Findings

- **The downturn in the WA economy is expected to continue in the short term, as major mining projects reach completion and the non-resources sectors of the economy remain subdued.**

- **The long term prospects for WA are sound, with the state well placed to take advantage of opportunities created by the continued strong growth in developing Asian economies.**

- **Resources will remain a key part of the WA economy in the future. However there are opportunities for WA in agriculture, and consumer services such as education and tourism, which will help to diversify the economy.**

Looking forward, the downturn in the WA economy is expected to continue in the short term.

According to the latest Treasury estimates contained in the *2016-17 Mid-Year Financial Projections Statement,* conditions in WA are likely to deteriorate further in the year ahead. The figures show that the WA economy is now predicted to grow by just 1% in 2016-17, down from the 1.25% rate of growth expected at the time of the Budget.

The downgrade to Treasury's growth expectations reflects a more rapid fall in business investment than previously expected, as major LNG projects reach completion. The Wheatstone project is due to deliver its first gas in 2017, while the Prelude floating platform is also anticipated to be completed in the year ahead.

Other sectors of the domestic economy are also likely to be more subdued than previously expected. Household consumption is projected to slow to 1.25% in 2016-17 (down from 1.4% in 2015-16, and 1.75% at Budget time), while dwelling investment is set to contract by 9.25%, compared to the previous estimate for a fall of 8.75%. As a result, the domestic economy is now expected to shrink by 6%, compared to the 3.75% decline previously forecast.

The weak domestic economy means that labour market conditions will remain tough in the coming year. Treasury is predicting the unemployment rate to hover at around 6.5%. Further job losses are also expected, with total employment expected to decline by 1.5%.

These forecasts reinforce the need for WA to look to new sources of economic growth in coming years.

WA has been a key beneficiary from the rapid growth in developing nations, particularly in Asia. While this has focussed on the supply of raw materials, the emerging economies provide a range of opportunities for WA to leverage its comparative advantages and diversify the WA economy beyond resources extraction.

Mining will remain an important part of the WA economy, and there remains considerable and ongoing opportunities to supply raw materials to Asia. However, there are also opportunities for WA to build on its knowledge and expertise in resources production to become a major supplier of mining technology and services. There are already a number of global technology and research centres in Perth that can help facilitate this opportunity.

There is also the prospect for WA to supply the region's increasing demand for food. As the developing Asian region becomes wealthier, there is an increasing demand for more premium food products, in particular protein. It is estimated that food production across the globe will need to increase by 70 per cent between now and 2050 as a result, with most of this demand coming from Asia.[xii] WA is well positioned to supply agricultural products to the region given its established industry and reputation for premium and safe produce.

Beyond commodities, there are also significant opportunities for WA to supply consumer goods and services to the region. This opportunity reflects the growing 'middle class' in the region, which is demanding more 'luxury' goods such as premium food and wine products and services as their incomes increase.

For WA, this provides an opportunity in relation to education. As the middle class in Asia increases, demand for education will also rise. WA has five universities and a quality training system which should provide scope to grow this industry. There is also scope for WA to increase our tourism industry. WA has an abundance of natural assets and visitor experiences, and is well placed to grow the tourism sector due to its close proximity to Asia.

7. Ensuring WA's successful economic transition

Key Findings

- **While there is significant potential for the WA economy, the successful transition away from resources-led growth is not assured.**

- **To facilitate the diversification of the economy and the emergence of new drivers of growth, all levels of Government need to work together to create an environment that encourages investment and leads to productivity and economic growth.**

- **It is important that the policy focus is not around 'picking winners', but instead about creating an environment that will improve the efficiency and competitiveness of the economy in general.**

- **While many of the reforms that will facilitate this lie at the Commonwealth or State level, Local Government can play an important role to ensure the WA economy can successfully transition away from resources led growth.**

- **Local Government is a major player in the state economy and is well placed to work with other levels of government to implement key reforms that will ensure WA can successfully transition away from resources-led growth**.

With its close proximity to the fastest growing economies, stable political environment, and established industries, WA is well placed to take advantage of the opportunities that are generated from the developing Asian region.

The ability to effectively leverage these opportunities will require that the state successfully transitions away from resources as the primary driver of economic growth. However this is not assured, with a range of barriers and issues that need to be addressed to ensure the state can tap into these new sources of growth.

All levels of Government need to work together to create an environment that encourages investment and leads to productivity gains and economic growth.

While there are a range of potential opportunities for WA as outlined above, it is important that the policy focus is not around 'picking winners', but instead about creating an environment that will improve the efficiency and competitiveness of the economy in general. This will encourage growth not just in regional areas of the state, but in the metropolitan area as well, where the bulk of the population resides.

With a presence in all communities across the state, a workforce of approximately 22,000 people, responsibility for key regulatory activities such as planning and development approvals, and a significant proportion of public assets under management, Local Government is a major player in the local and State economy.

Local Government is well placed to work with other levels of government to implement key reforms, particularly given that it is the closest level of Government to the community and has a unique understanding of its needs.

Improving Commonwealth and State Finances

Key findings

- **Budget repair must be a priority for both the Commonwealth and State Governments, to reduce pressure for increased taxes on the community which would damage our international competitiveness. It is also important that affected stakeholders are appropriately consulted to ensure that taxpayer dollars are directed to priority areas.**

- **Spending cuts must not result in cost-shifting to other sectors, including the Local Government sector. Cost shifting to Local Government reduces the sector's resources available to devote to key community service and infrastructure that can assist with the economic transition.**

Addressing the Commonwealth and State Government's weak financial position is an important reform to ensure the economy can transition successfully from resources investment.

The weaker economic conditions have had considerable implications for the state and the nation's financial position. Both the State and Federal budgets are firmly in the red, with WA expecting a record $3.39 billion deficit this financial year, while the Commonwealth Budget deficit is now estimated to be $36.5 billion and climbing. Both the State and Federal Budgets are expected to remain in deficit for a number of years to come.

Debt has also continued to mount, with net debt in WA expected to hit $33 billion in 2016-17, while Commonwealth debt is expected to reach $317 billion.

The deteriorating budget position is in part due to write downs in revenue as a result of the poorer economic climate in line with the mining downturn. The WA budget in particular has experienced a sharp fall in royalty revenue, weaker payroll and property taxes, and a declining share of the GST. At the time of the 2016-17 State Budget, this had wiped $2.3 billion off revenues since the peak in 2013-14.

The persistent deficits being run at both levels of Government put upward pressure on taxes on the community, and also force current and future governments to re-examine spending on services and infrastructure. This has the potential to damage the competitiveness of our economy and ability to attract investment and workers. In this regard, budget repair must be a priority for both the Commonwealth and State Governments. Further, the rising levels of debt limit the scope of the Government to undertake fiscal policy measures such as investing in infrastructure or cutting taxes as a way to stimulate economic growth.

Improving the budget position will inevitably require reductions to government spending. While deeper cuts will be necessary, this can't be a 'slash and burn' approach that removes programs without any regard to the benefits they deliver. Any spending cuts must first be targeted at removing waste and inefficiencies from the public sector, and then focussed on moving service delivery to a sustainable base. Affected stakeholders must also be appropriately consulted when determining areas of spending cuts to ensure that taxpayer dollars are directed to priority areas.

It is also critical that cuts to State Government spending do not result in cost-shifting to other sectors, including the Local Government sector. This has been experienced in recent times in WA as the state has looked to cut back spending in order to improve its financial position. One example is the decision by the Department of Local Government and Communities (DLGC) to withdraw from the provision of property management services for local childcare and community centres.

While WALGA acknowledges that property management is not a core role of Government, the decision occurred without consultation and has created a funding gap in relation to lease costs that were previously subsidised by the DLGC. The decision to cease providing this service means that Local Governments will be required to absorb rent that would have previously been provided by the DLGC, or to charge commercial rates to the community services providers using the facility.

At a time when the community is already being impacted by the downturn, this decision will result in poorer outcomes by forcing service providers to move into areas where they can secure affordable lease arrangements, rather than in communities where the services are needed most. Alternatively, it will require Local Government to fund these lease costs at the expense of other key services or infrastructure that can assist with the successful economic transition, or through additional costs to ratepayers at a time they can least afford it.

A further example of cost shifting is in relation to the State Government's decision to abolish the concession provided to Local Government for vehicle licence fees and duty. While WALGA is still seeking feedback on the cost to the sector, it is currently estimated to cost the sector in the order of $9 million dollars per annum that could be used to invest in key services and infrastructure to assist with the economic transition.

Removing over-burdensome regulations

Key findings

- **There are a range of reforms that are needed to ensure that the sector can effectively deliver on its role in facilitating the economy's transition, by removing constraints on local governments' ability to raise own-sourced revenue or manage assets in the best interests of their communities.**

Removing over-burdensome or unnecessary regulation is an important way to improve the competitiveness of our economy and encourage growth and diversification.

There have been numerous studies assessing the impact of the regulatory burden in Western Australia. Central among these was the State Government's 2010 Red Tape Reduction Group

Report, which identified the urgent need for reforms that will reduce the regulatory burden on business and the community.

However, there are also significant regulatory constraints on Local Government that need to be addressed. These restrictions limit the efficiency of the sector and the ability to appropriately raise own-sourced revenue or manage assets in the best interests of their communities. These constraints also restrict the sectors' ability to invest in productivity enhancing infrastructure, and provide important services for the community - which will be critical to ensuring the successful transition in the local economy.

Restrictions on fees and charges

Local Governments in WA face a number of restrictions on their 'own-source' revenue, including restrictions on Local Government fees and charges.

State Government restrictions on Local Government fees and charges are arbitrary (the same fees in other States are often deregulated) and inefficient. Local Governments can impose fees and charges on users of specific, often incidental, services. However, a number of fees and charges are prescribed and restricted by legislation, and are specifically limited to recouping the cost of service provision. Fees determined by State Government legislation are of particular concern to Local Governments and represent significant revenue leakage because of:

- lack of indexation;
- lack of regular review (fees may remain at the same nominal levels for decades); and
- lack of transparent methodology in setting the fees (fees do not appear to be set with regard to appropriate costs recovery levels).

Examples of fees and charges of this nature include dog registrations fees, town planning fees and building permits. Since Local Governments do not have direct control over the determination of fees set by legislation, this revenue leakage is recovered from rate revenue. This leads to unfair community outcomes in that all ratepayers subsidise services that are only used by a few.

The Association considers that it is appropriate that Local Governments have the freedom to set the level of their fees and charges. In the few cases where legislative restrictions are deemed necessary, they should be justified by a clear and logical rationale. Furthermore, those fees and charges that are prescribed by legislation should be reviewed and indexed on an annual basis to ensure they are set at appropriate cost recovery levels.

Service Delivery Models

The ability to use more flexible and innovative methods to deliver services is also critical to ensure that Local Governments have the capacity to provide services and infrastructure needed to help local communities through the economic transition.

A recent positive development in this area has been passing of legislation in WA to allow for the use of regional subsidiaries to deliver services. This model is expected to reduce red tape and improve efficiency in vital areas such as planning approval processes, road maintenance and administrative systems, which will be critical to ensure the successful transition of the local economy. However, WALGA has concerns that the regulations will not allow a subsidiary to borrow money or acquire land, which will limit the benefits that this reform could achieve.

Further benefits to Local Governments and their communities could be provided through the development of Council Controlled Organisations (CCOs). This model is available to Local Governments in New Zealand, and one or more Local Governments to establish a wholly Local Government owned commercial organisation. CCOs are established to carry out a range of functions where it is considered that there would be efficiency gains from the creation of professionally governed entities established for the specific purpose.[xiii]

The CCO model would deliver a number of benefits for local governments in WA, including the flexible structure, access to independent expertise, and the removal of decision making from the political realm. Risk can also be reduced by the CCO model by quarantining ratepayers from legal liability and financial risk arising from commercial decisions.

Another key advantage of CCOs is that they would be able to enter into commercial partnerships with the private sector to deliver infrastructure and related services more effectively than Local Governments themselves, which will be important in the context of encouraging new sources of economic growth.

Streamlining planning processes

Key Findings

- **The planning system can act as a barrier to the development of new industries, particularly when the proposed activities do not fall within the permitted land uses identified under existing Local Planning schemes.**

- **The new timeframes for Scheme and Scheme amendment processes should be monitored to ensure that they are delivering on more streamlined processes to facilitate new developments.**

The planning system has an important role to play in ensuring the successful transition away from resources led growth. In particular, the planning system needs to be flexible to enable the development of new industries and business activity.

However, the planning regime can act as a constraint on development, particularly in the case where new activities are not permitted land use under the existing Local Planning Scheme.

For those where a Local Government has a Local Planning Scheme with a wide variety of permitted land uses, new development into a town can be accommodated within the existing planning system.

However, in situations where the development activity does not fall within the permitted uses, this will require the Scheme to be amended. Typically, the process to review and adopt a new Local Planning Scheme to accommodate land uses not covered previously has been unwieldy and time consuming. This can act as a barrier to new development and the diversification of the economy.

The State Government recently changed the timeframes for the Scheme and Scheme Amendment processes, which may assist in enabling alternative land uses. However, it is not yet clear whether these changes have translated into shorter timeframes and streamlined processes. It is critical that these developments are monitored and the State Government makes findings public to ensure more streamlined processes to facilitate the development of new industry and the diversification of the economy. The State Government must also resource reforms to planning processes and facilitate the changes that are required by Local Government.

The Commonwealth Government can also play a role in the streamlining of planning processes through the Council of Australian Governments process by monitoring progress to streamline processes and encouraging the national exchange of information to encourage best practice planning.

Investing in infrastructure

Key Findings

- **Addressing infrastructure constraints – particularly in regional areas of the state – will be an important way to facilitate the diversification of the WA economy.**

- **The development an infrastructure plan for the state is an important step to improve infrastructure planning and prioritisation and address infrastructure constraints.**

- **Additional funding support from the Commonwealth and State Governments will be needed to address the local infrastructure backlog.**

Infrastructure is a key enabler of economic and productivity growth. Investing in appropriate infrastructure will be an important way to ensure that the WA economy can transition from the mining investment boom by unlocking new industries and creating jobs over the longer term. All levels of Government have an important role in the provision of infrastructure. For Local Government, this is largely centred on the provision of roads, public lighting and community infrastructure.

Despite record levels of investment in recent years, infrastructure constraints remain a key issue for WA. Concerns have been raised about the inadequacy of economic and social infrastructure such as transport, communications, water, health and education infrastructure. At a Local Government level, the infrastructure backlog is estimated to be in the order of $5.4 billion in 2014-15.[xiv]

Infrastructure constraints are of particular concern outside of the metropolitan area. Research by CEDA highlights the negative effect that infrastructure constraints are having on economic performance and potential in regional areas of the state. In particular, freight routes were identified as a key area of concern, which add to costs and act as a barrier inhibiting the export of goods.[xv] The ability, and sometimes the cost, of accessing high quality communications services has also been identified as a barrier to economic engagement in regional areas. [xvi]

Addressing infrastructure constraints – particularly in regional areas of the state – will be an important way to facilitate the diversification of the WA economy, given that the opportunities on the horizon for WA are largely located in regional areas, and relate to exports to overseas markets.

The development an infrastructure plan for the state is an important step to improve infrastructure planning and prioritisation and address infrastructure constraints in WA. This will assist with prioritising projects and ensure that WA is better placed to attract funding from the Commonwealth Government, as well as the private sector.

Projects identified in the plan should be prioritised based on a thorough and transparent cost benefit analysis, and be used to make sure funding is directed to projects which will deliver the greatest benefits to the WA community in terms of enhanced productivity and long term job creation. The plan should not only relate to economic infrastructure, but should also take into consideration important social infrastructure needs. The plan should also consider infrastructure projects that fall within Local Government's jurisdiction, rather than just those that would typically receive State or Commonwealth Government funding.

As well as improvements to infrastructure planning in WA, WALGA considers that there is a need for increased investment to address the existing infrastructure backlog. For the Local Government sector, this will require additional funding support from other levels of Government.

The provision of suitable infrastructure to facilitate economic growth is a challenge for Local Governments. The sector is responsible for the provision of major infrastructure such as local roads, and therefore provides the bulk of funding for this infrastructure. However, Local Governments do not have the financial capacity to appropriately maintain the existing infrastructure and invest in new infrastructure, and there are significant constraints on the sector's ability to raise revenue (see Removing Over-burdensome Regulation section).

These constraints are of particular concern for regional areas. Local Governments in regional areas are generally responsible for maintaining a rural road network, as well as the roads in an urban centre. Many of the rural roads are important freight routes for mining as well as the other key industries that represent an opportunity for WA, including agriculture and tourism.

Regional Local Governments also face added pressures in the provision of community infrastructure, which is important for the liveability of the regions and ability to attract and retain a suitable workforce (see Workforce section). While Metropolitan Local Governments have the ability to share infrastructure such as pools, sports centres, entertainment venues and libraries, most regional capitals need to provide every type of community asset themselves.

The limited financial capacity of local governments to fund infrastructure is perhaps best demonstrated in relation to roads. The *2014-15 Report on Local Government Road Asset and*

Expenditure shows that Local Governments would have to spend 28% of their estimated revenue capacity to make up the difference between their road preservation needs and road grants. This proportion was significantly larger for regional areas, rising as high as 89% in the Wheatbelt.

Given the importance of local infrastructure to diversifying the economy and the constraints on the sector's funding capacity, WALGA believes there is a case for additional support for local projects.

Looking at the overall pool of Commonwealth payments to Local Governments, the Association believes there is a case for increasing the proportion of untied funding. Local Governments and their Associations across Australia have long argued for an increase in general funding, and are seeking to increase the quantum of FAGs to at least 1% of Commonwealth taxation. Increasing the current base funding of approximately $2.3 billion to $3.8 billion would better reflect the actual cost of local government services and infrastructure provision, and assist with addressing the existing infrastructure backlog.

The provision of more untied funding will be a more cost-effective method for the Commonwealth Government to assist Local Governments in providing infrastructure and services by improving the ability to prioritise and select projects; ensure that projects are selected on community priorities rather than available grant funding; and reducing administrative costs by rationalising the number of grants schemes.

As well as an increase in funding, FAGS should be indexed annually to ensure the real value of the funding is preserved. In 1996 FAGs accounted for around 1% of Federal taxation revenue, but have now decreased to approximately 0.6%.[xvii] Restoration of the FAGs pool to previous levels would greatly assist Local Governments to provide the infrastructure that is needed to ensure the successful transition of the WA economy.

In relation to state funding, an increase in funds provided under the State Road Funds to Local Government Agreement would be an important way to address the local infrastructure backlog. The 2011-12 to 2015-16 Agreement provided for an allocation of 27% of vehicle licence fees (VLF) to Local Governments to assist in the task of funding the State's 128,000km local road network. In recent years funding has dropped to approximately 22% of VLF. This has resulted in declining funding that has not kept pace with State economic and population growth.

The next phase of the Agreement is currently being negotiated. It is critical that funding is sufficient to keep pace with maintenance and construction needs, to ensure that the current gap between available funding and road maintenance requirements doesn't increase further.

The Association believes that it is appropriate to return the level of funding provided to Local Government to 27% of revenue from motor vehicle registration. Such an approach is consistent with the initial agreement and will go a significant way to addressing the backlog in road maintenance. Compared to estimates currently contained in the budget papers, raising funding to 27% of vehicle registration revenue would provide local governments with an additional $54 million in funding in 2018-19, and a further $57 million in 2019-20.

A more efficient tax system

Key Findings

- **Reforming the tax system is an important way to boost productivity, and improve our international competitiveness. These are key issues to ensure that WA can attract investment, and successfully transition from the mining boom.**

- **Substantial changes such as addressing the high degree of vertical fiscal imbalance will be difficult to achieve in the short term, particularly in light of the weak financial position at both a Commonwealth and State level.**

- **Reforms can be made within the existing tax system that will improve efficiency and encourage investment and economic growth in the short term.**

- **Broadening the rates base by removing some exemptions that cannot be justified is an important reform to improve the efficiency of the tax system and address constraints on Local Governments' revenue.**

- **WALGA considers that abolishing transfer duty on property and increasing the payroll tax exemption threshold are also priority areas to help the economy transition in the short term.**

Reforming the tax system is an important way to boost productivity, and improve our international competitiveness. These are key issues to ensure that WA can attract investment, and successfully transition from the mining boom.

There have been numerous reviews into Australia's tax system in recent years, including the Henry Review, and more recently the Tax Reform White Paper process. One of the key issues that has been consistently raised is the high degree of vertical fiscal imbalance in the Australian economy, which has contributed to a reliance on inefficient taxes. This is a key issue that must be addressed to improve the efficiency and competitiveness of the economy, but it is recognised that it is a significant reform that cannot be implemented in the short term, and is made even more challenging by the weak financial position at both a Commonwealth and State level.

However, there are reforms that can be made within the existing tax system that will improve efficiency and encourage investment and economic growth.

Broadening the rates base

Local Government rates are considered to be an efficient way to raise revenue, as they are broad based – to the extent that rates apply to most types of property, including the principal place of residence.

There are some exemptions from the rates base, which are justified by a sound rationale and are generally well supported by the community. For example, charitable organisations are exempt from rates on the basis that they deliver important social services that would otherwise need to be provided by Governments.

However, there are other State Government mandated exemptions that do not have the same sound rationale. These exemptions should be removed as a way to improve the efficiency and lift constraints on Local Governments' ability to raise revenue.

Independent Living Units

As discussed above, section 6.26(2)(g) of the *Local Government Act 1995* provides that 'land used exclusively for charitable purposes' is exempt from Local Government rates. While there is a sound rationale for these exemptions to exist, they have extended beyond the original intention and now provide rating exemptions for land used by not-for profit organisations for profitable purposes. The most prominent example of this is the exemption provided to Independent Living Units (ILUs).

ILUs are separate dwellings, usually in retirement villages, and residents often manage their own affairs without any health, nursing, personal or other forms of support provided by the owner of the village. The not-for-profit sector is an important, although not the only, developer of such accommodation. As the population ages the revenue forgone from conversion of existing rate paying land to ILU accommodation operated by the not-for-profit sector is expected to grow and place an increasing burden on the smaller proportion of the population who do pay rates.

State Government Trading Entities

State Government trading entities do not pay rates to Local Governments, but instead pay a 'rate equivalent' payment to the State Government to comply with the 'competitive neutrality' principle of National Competition Policy. This matter is of serious concern to Local Governments with substantial State owned trading entities in their district. The shortfall in rates is effectively paid by other ratepayers, which means ratepayers have to pay increased rates because trading entities have a presence in the district.

The State Government trading entities covered by this arrangement include Port Authorities and a number of utility corporations. Most of these entities place significant demands on Local Government infrastructure, especially roads. The rate revenue foregone from these trading entities is substantial – about $19 million in 2016-17.[xviii] The Association therefore believes it would be appropriate for Government Trading Entities' rate equivalency payments to be made to the relevant Local Governments instead of the State Government.

State Agreement Acts

Local Governments in WA are often restricted in rating major resources projects, largely as a legacy of a pre-FIFO era where mining firms constructed company towns located near project sites. These arrangements were prescribed in State Agreement Acts, which are essentially contracts between the State Government and proponents of major resources projects that are ratified by the State Parliament.

Local Governments and State Government utility providers have assumed responsibility for services and infrastructure for most mining company towns. However, the rating restrictions remain. This causes inequity between proponents of older projects, who benefit from substantial rates concessions, and newer projects which are generally liable for standard Local Government rates.

Removing transfer duty

WALGA considers that removing inefficient taxes or introducing indexation should be the priority to help the economy transition in the short term.

Transfer duty is considered to be a key area for reform. Duties are highly inefficient transactions-based taxes that distort economic activity. Several reviews commissioned by State and Federal Governments have suggested there would be substantial economic gains from reforming stamp duty. For example, the Henry review recommended that State Governments phase out stamp duties on land transfers and replace this revenue with broad based land taxes[xix]. The WA Economic Regulation Authority also recommended the State Government consider reducing or abolishing residential transfer duty and making greater use of efficient taxes such as land tax.

These reforms are important ways to improve the efficiency of the economy and to encourage the development of new industries.

In particular, the removal of stamp duty would provide a stimulus to the housing sector. This would be a welcome boost to economic activity in the state, and to the extent that it leads to new housing activity, would be an important way to absorb construction labour that is no longer required in the mining sector.

The abolition of stamp duty is also an important reform to help improve labour mobility. Transfer duty adds a substantial outlay to the costs of purchasing a home, and leads to the inefficient use of housing stock by creating a disincentive to moving house. Transfer duty discourages workers from moving closer to their jobs, and also discourages workers from moving from areas with high unemployment to regions where there are more abundant job opportunities.

WALGA believes that transfer duty should be phased out, but recognizes that this reform will be difficult to achieve in the short term given the constraints on the state budget position.

In the absence of the abolition of stamp duty, reform is needed to address the bracket creep that has occurred in recent years, as a result of the thresholds remaining unadjusted despite the significant increase in property values that occurred between 2001 and 2007. Although the market has been subdued in recent times, the impact of this strong period of price growth continues to be felt. Perth's median house price currently stands at $515,000 in September 2016, which means that a median priced home now falls within the second highest bracket for transfer duty purposes.

To address this issue, transfer duty scales should be adjusted to reflect current house prices, and ensure that the top tax rate takes effect at levels equivalent to those that were in place before the housing boom. It is also important that thresholds are indexed to ensure that bracket creep does not become a problem again in the future.

Raising the payroll tax threshold

A further area where reform is needed to help the economy transition is in relation to payroll tax.

While it is recognised that payroll tax is an efficient tax, in practise, it is a barrier to employment – particularly for small businesses that are nearing the exemption threshold. This has been a key issue in Western Australia given that there has been strong economic and wages growth, but the exemption threshold has not been indexed to ensure its real value is maintained.

Restoring the value of the exemption threshold will be an important way to encourage growth in the short term – particularly among small businesses, which are a significant employer. National estimates show that around 44% of the workforce are employed in small businesses.[xx] Encouraging the growth and development of small business is a particularly important way to diversify the economy and encourage sectors outside of resources to make a greater contribution to growth.

Raising the exemption threshold to ensure that genuine small businesses with up to 20 employees on average wages are exempt from payroll tax will remove a disincentive to employment, and is an important reform to help diversify the economy. The threshold should also be indexed to a suitable measure of wages growth (such as the wage price index), to ensure that its value is maintained into the future.

Workforce development

Key Findings

- **It is important that education and training is directed towards the skills requirements of our future industries to ensure that the workforce is capable of supporting future growth.**

- **To ensure a successful labour market transition, there must be a focus on re-skilling and retraining the existing workforce to areas of future growth such as healthcare and education and training.**

- **The 457 visa arrangements should also be reviewed to ensure they are appropriate for the post-mining boom environment.**

- **Many of the industries that represent growth opportunities for WA such as agriculture and tourism are in located in regional areas of the state. While fly in fly out workers have been an important way to meet the state’s labour needs, WALGA supports measures to encourage the establishment of a larger residential workforce**

in regional areas given the significant pressures large service populations place on regional local governments.

- **Restoring the value of the Zone Tax Offset is an important reform to improve labour mobility and to encourage workers to locate to future growth areas in the regions.**

- **WA's future growth will also require a focus on increasing the size of the workforce going forward, through strategies to increase workforce participation among diversity groups that are typically under-represented in the workforce such as women, people with a disability and Aboriginal Australians.**

The workforce will be essential to WA's successful transition away from mining led growth. Ensuring that we have a suitably skilled workforce will be essential to meet the needs of our future industries, and will be critical to WA's successful transition from the mining investment boom.

However our workforce requirements will not just be around skills, but on ensuring that there is a sufficient supply of people of working age to meet future jobs needs.

In ensuring the state has an appropriate workforce for industry needs, it is also important that the current 457 visa arrangements are reviewed to ensure they remain appropriate in a post-mining boom environment.

Education and training

Labour and skills shortages were the biggest constraint on the WA economy at the height of the resources boom, and acted as a brake on growth. While these constraints have eased in line with the downturn, this does not mean that the state's labour issues have been permanently resolved. Even in times of downturn, it is important that there is continued investment in education and training, and that this is directed towards the skills requirements of our future industries to ensure there is a suitable workforce to support future growth.

According to modelling undertaken by the Bankwest Curtin Economic Centre, there is an expectation that future industry growth in construction and mining will moderate from recent annual growth rates of around 5%, to just 2% by 2025. However, other industries are expected to pick up over this period. In particular, jobs growth is expected to be highest in agriculture, health care, education and training, and accommodation and food services.[xxi]

In light of these predictions, there is expected to be some degree of misalignment between the skills required for these roles, and those of workers that have been displaced from the mining and construction sectors. To ensure a successful labour market transition, it is important that there is a focus on re-skilling and retraining of the existing workforce.

While education and training is generally provided through schools, TAFE and universities, local governments can contribute to the economic development of local communities, particularly through the public library system.

Public libraries provide access to resources, knowledge and technology, and traditionally played an important role in the development of literacy skills. However, the role of public libraries is changing, and there is scope for these important community institutions to play a greater role in the skilling and retraining of the workforce.

Increasingly, public libraries are playing a role to support people to use digital resources effectively, which is an important skill for engagement in both the work force and the community as information sources continue to move online.

Public libraries can also be an important mechanism to support the development of a range of foundation skills that are essential for the future workforce, such as problem solving, critical thinking and communication. They are also well placed to facilitate the development of future skills needs in areas such as Science, Engineering, Technology and Mathematics. Public libraries can facilitate and encourage these skills through community engagement with initiatives that increase public interest and involvement in these areas.

However, to achieve this there is a pressing need for change at both state and local levels to deliver more efficient and flexible public library services that meet diverse community needs - including education and skills development. WALGA considers there are a number of important priorities for reform of public libraries in WA.

- *Legislative Reform* – The *Library Board of Western Australia Act 1951* does not reflect the context of modern libraries, and needs to be amended to it reflects and provides for effective governance and the flexibility to support and improve the delivery of public library service delivery in WA.

- *New model for regional remote library services including relationship with Community* - The expansion of local government functions and services provided over recent decades have led to a mismatch between expenditure demands and current levels of service.

- *Single Card access system* - To deliver a modern service requires computerization and networking of all libraries to a shared Library Management System.

- *Grants systems based on standards* - The current public library funding from the State Government to the State Library of Western Australia is provided for capital works. A grants based model would be more appropriate to ensure library stocks meet community need. Local Government need the flexibility to be able to maximise the value of the State funding allocation to libraries.

- *A new model for support of WA public libraries, including funding* - Public Library service delivery has remained unchanged for over fifty years. A new model for library services is needed, recognising the changing role of Public libraries as a cultural and community hub is needed.

Beyond libraries, Local Government can also play an important role in the skilling and education of the community through its economic development and business incubator functions. A key element of these activities is training, including advice and guidance on starting a business.

Labour Mobility

Many of the growth opportunities for WA in sectors such as agriculture and tourism are in regional areas of the state. Recent experience has suggested that WA has typically struggled to attract workers to permanently locate to regional areas, which was reflected in the significant growth in the fly in fly out workforce to facilitate the growth in the mining sector.

While it is recognised that this has been an important way to meet the mining sector's labour needs, it has brought with it a range of challenges for regional communities. For local governments, one of the key challenges has been the need to cater for a large service population, compared to the ability to raise revenue from residents. This adds significantly to the cost of providing infrastructure such as roads, airports, water and community facilities. In this regard, WALGA supports measures to encourage the establishment of a larger residential workforce in regional areas.

One option to assist with this is to restore the value of the Zone Tax Offset (ZTO). The ZTO can assist regional development in remote areas of Australia as well as recognising the higher living costs incurred by taxpayers in those areas. This will be important given that may of the future opportunities for economic development in WA are in regional areas.

The nominal level of the zone A, zone B and special area ZTOs has not been increased since 1993. This has led to a number of suggestions to review these amounts. For example, the Parliamentary FIFO inquiry recommended that the Commonwealth review the ZTO to ensure 'that it provides reasonable acknowledgement of the cost of living in remote Australia'[xxii]. Similarly, the WA State Government's submission to the 'Australia's Future Tax System' review (the Henry review) noted the value of the ZTO had eroded over time and should be reviewed[xxiii].

The Association believes the ZTO should be increased by the same rate as the change in the Australian CPI since 1993. Furthermore, the ZTO should then be indexed to the CPI to prevent inflation from eroding the real value of the offsets in future years.

Workforce Participation

General and widespread labour shortages are no longer a pressing issue for the WA economy given that conditions have deteriorated. However, our economic success over the longer term will require a focus on increasing the size of the workforce in order to help counter the impact of the ageing of the population as a growing number of Western Australians reach retirement age.

WALGA considers that an important way to increase the size of the workforce is to focus on increasing labour force participation amongst diversity groups that are typically under-represented in the workforce such as women, people with a disability, mature aged workers and Aboriginal Australians. This is not just an important economic objective, but also critical from a community and social development perspective.

There are a range of targeted strategies that can be used to improve participation rates amongst these groups, may which rest with employers (such as flexible work arrangements), or with the State and Federal Government (for example, investment in education and training, incentives within the tax and transfer system).

The Local Government sector is committed to creating inclusive communities. Many councils in WA possess expertise in diversity groups and have policies and processes in place to promote inclusive communities and can assist with the implementation of strategies to improve workforce participation among diversity groups.

For example, all Local Governments in WA are required to have in place disability inclusion plans, which relate to the provision of services and events; buildings and facilities; information; quality of service; complaints; consultation processes and employment. These plans can assist people from diverse backgrounds become more involved in the community. They are intended to benefit people with disability, the elderly, young parents and people from culturally and linguistically diverse backgrounds.[xxiv]

Local governments also provide services that can assist in removing barriers to employment among diversity groups, such as childcare and family day care; public library services.

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