

Mr Lyndon Rowe
Economic Regulatory Authority
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6000

Dear Mr Rowe,

**Draft Report: Inquiry into Microeconomic Reform:
Property Council of Australia Confidential Submission**

Thank you for the opportunity to make a submission on the Authority's *Draft Report: Inquiry into Microeconomic Reform* (the Inquiry). The Property Council of Australia (The Property Council) represents businesses that are directly impacted by matters raised by the Inquiry. The Property Council therefore takes a keen interest in the role that microeconomic reform could play in improving the efficiency and performance of the Western Australian economy. This Submission provides comment on relevant recommendations in the order in which they were raised:

Infrastructure

Recommendation One:

Apply project evaluation processes, including cost-benefit analysis, consistently and rigorously to all major infrastructure projects.

The Property Council strongly supports the recommendation to apply project evaluation processes, including cost-benefit analysis, consistently and rigorously to all major infrastructure projects. The Property Council recommends that the evaluation of all major projects needs to be public and the cost-benefit ratios of project options be ranked. Project evaluations would be more useful if guided by a long-term plan to prioritise, fund or deliver infrastructure.

The desire to attract more private sector investment requires a sensible, transparent and bipartisan pipeline of infrastructure projects that is guided by an infrastructure plan. Without a long-term infrastructure plan and a pipeline of infrastructure projects, the government will have limited success in attracting private investment. Project evaluation of all major infrastructure projects through unbiased, independent analysis, comprehensive assessment of all available policy options and rankings based on cost-benefit ratios would provide the accurate pipeline of projects needed to attract private investment.

Through a series of interviews, the Property Council compiled 15 case studies on the current infrastructure provision process. The case studies revealed that there is significant industry uncertainty around government's long term priorities and how major infrastructure projects are selected and delivered. Problems with politically-motivated 'big-ticket' infrastructure projects surviving a political cycle and individual departments' ability to deliver proposed infrastructure investments all contribute to the uncertainty of infrastructure provision.

Uncertainty due to the absence of a long term infrastructure plan (15-20yrs +) that is supported by a pipeline of projects has a low direct-dollar cost for property developers. However, Property Council case studies indicated that a long term infrastructure plan is needed so that the private sector can better understand government's logic and priorities, enabling the sector to mobilise resources accordingly. Property developers believe that by informing where and when government will be delivering infrastructure would allow the private sector to better align investment strategies. The delivery of strategic infrastructure under a long term infrastructure plan should be overseen by a Minister who is held accountable for the infrastructure portfolio's performance; planning, funding and delivery.

Importantly, major infrastructure projects that have been through the evaluations process and have been committed to, but are then not delivered, creates significant uncertainty and direct cost for industry.

Property Council case studies identified holding costs as a result of delayed infrastructure delivery to be a significant direct cost. One such example is the East Rockingham Waste Water Treatment Plant which was committed to in 2003, but was not delivered until a decade later. The delayed delivery of the treatment plant held up residential development in the area. For one Property Council case study more than 3000 residential lots were delayed, a result which had strong implications for Perth's housing crisis. Hypothetically, consider the holding cost associated with an indicative 250 residential lot development, fully debt financed with an interest rate of 10% per annum. The project is assumed to be delayed by two years. A delay in this scenario would be estimated to result in a holding cost of approximately \$2.1 million through additional interest repayments that would otherwise be avoided, or 21% of the overall value of the land. This would equate to a holding cost of approximately \$8,400 per lot.

Parameter	Indicative Value Used
Land Area	
Number of Lots Delayed	250
Average Lot Size (sqm)	400
Total Lot Area (ha)	10
Site Utilisation/ Efficiency Ratio	50%
Total Land Area (ha)	20
Land Value	
Englobo Land Value (\$/ha)	\$500,000
Total Land Value (\$M)	\$10.0
Loan	
Loan Amount (\$M)	\$10.0
Interest Rate (%)	10%
Delay (Years)	2
Estimated Holding Cost (\$M)	\$2.1

The above indicative example of holding costs only includes interest repayments; holding costs to developers also include other expenses such as land maintenance, rates and other costs associated with owning/ holding land. Additionally, holding costs tie up developer capital that could otherwise be invested in more productive uses. This can result in significant opportunity costs to the developer.

The Property Council recommends that the evaluation of strategic infrastructure projects needs to be guided by an overarching, long-term infrastructure plan with a Minister accountable for the infrastructure provision; planning, prioritisation and delivery. The Minister should be supported by an independent body to coordinate infrastructure provision to ensure that major infrastructure projects that have been committed to are delivered.

Recommendation Two:

Subject all election commitments to rigorous project evaluation processes before being included in the State Budget.

The Property Council strongly supports the recommendation that all election commitments be subjected to rigorous project evaluation processes before being included in the State Budget.

Property Council case studies revealed that politicized infrastructure investment increased industry uncertainty. Uncertainty around government policy leads businesses to be particularly cautious when making investment decisions¹.

Anecdotal evidence suggests that when faced with uncertainty, businesses often reduce capital investment, with negative implications for economic growth. Ensuring that all election commitments have been subjected to rigorous evaluation, therefore making them more likely to be delivered, will decrease industry uncertainty and encourage private investment to leverage strategic infrastructure projects.

Recommendation Three:

Publish the outcomes of all major project evaluations.

The Property Council supports the recommendation to publish the outcomes of all major project evaluations. Governments need to be accountable as to how tax payer funded projects have delivered a net benefit to the community.

The Office of the Auditor General reviewed major capital projects and concluded that the limited reporting on major capital projects means that the public are restricted in the ability to assess the progress of the project and its ability to deliver net benefits to the community. The Office of Auditor General found that there was a major gap in transparency and accountability. Publishing the outcomes of all major project evaluations would be a step towards improving accountability and transparency.

¹ Gulen, H. and M. Ion. 2012. Policy uncertainty and Corporate Investment. Krannert Graduate School of Management, Purdue University, IN. http://www.stanford.edu/group/SITE/SITE_2013/2013_segment_2/2013_segment_2_papers/gulen.pdf

Recommendation Four:

Repeal the Royalties for Regions legislation, or restrict regional funding to an amount determined annually as part of the Budget process and guided by appropriate cost benefit analysis on a project by project basis.

The Property Council supports the decision to invest in regional WA, particularly in projects such as the Pilbara Cities Initiative. The Royalties for Regions fund is dedicated to fund infrastructure in regional areas. However, there is no discernable infrastructure investment strategy or prioritised pipeline.

The Regional Planning and Infrastructure Frameworks provide context for strategic infrastructure needs. Despite this, the infrastructure needs of regional WA cannot be considered in isolation of the infrastructure needs of the metropolitan areas or the State as a whole. Until there is a long-term infrastructure plan and an independent body to coordinate and prioritise infrastructure investment in WA, the Property Council urges the Government to better integrate the funding of regional infrastructure with the early involvement of the WA Planning Commission's Infrastructure Coordinating Committee [ICC]. The ICC, as a body of Director-Generals, brings together all the relevant policy, planning and operational agencies that are best placed to establish short, medium and long-term infrastructure needs across the State in response to growth scenarios. At the minimum, consultation with the ICC prior to the commitment of Royalties for Regions funds will ensure that the infrastructure investment allocated to infrastructure priorities in the Regions increase overall regional business attractiveness and encourage private sector investment.

Western Australia, more generally, has a significant infrastructure gap that is constraining growth, productivity and competitiveness. The Future Fund was committed to in the 2012/13 Budget under the Royalties for Regions program. The Future Fund quarantined \$1 billion of royalty revenue as seed capital to for future infrastructure requirements. The Future Fund, though admirable in its objective, needs to better demonstrate why it is the most suitable vehicle to secure the future infrastructure for the next generation of West Australians. The Property Council advocates that future generations would be better supported through a strong economy, a vibrant capital city with strong employment and housing options and an integrated public transport system. The Property Council believes that investments in key infrastructure in current budget estimates would ultimately provide a greater return than the average 5.2% return targeted by the Future Fund through the State's Public Bank Account.

The Property Council urges the government to review the effectiveness of the Royalties for Regions legislation and particularly the Future Fund. The Royalties for Regions Fund has been operational since 2008 and as such, its ability to deliver regional development outcomes through infrastructure and service investment needs to be independently reviewed. The Property Council urges the government to demonstrate how the invested projects have driven productivity improvements and delivered long term efficiency gains and how infrastructure projects are prioritised across the Royalties for Regions portfolio. Furthermore, the decision to set aside \$1 billion for the next 15-20 years requires debate. The Property Council asks how, with a declining State revenue context constrained by infrastructure bottlenecks, allocating 25% of royalty income is delivering long to gains to the State.

Recommendation Five:

Trial a congestion charge for entering the CBD during morning and afternoon peak periods.

The Property Council supports the ERA's conclusion that congestion in and around the Perth CBD needs to be better managed. However, congestion charges within the Perth CBD already exist under the *Perth Parking Management Act 1999*. This nuisance tax requires all non-residential parking bays within the Perth Parking Management Area (PPMA) to be licensed with a fee paid when liable. The Perth parking levy raised an estimated \$34 million in 2012/13 financial year with the sole purpose of managing congestion, increasing the use of public transport and funding the free Central Area Transit buses.

The parking levy is highly inequitable as it only captures and charges a small proportion of the cars contributing to CBD congestion. Given the geographic layout of the Perth CBD, there is significant 'pass through' congestion that is not captured by the parking levy. This makes the tax highly inequitable and inefficient with minimal reductions to CBD congestion.

The Property Council would not support the trial or introduction of additional congestion taxes on top of the costly and inequitable parking levy. The Property Council would recommend that the *Perth Parking Management Act 1999* is abolished, with more equitable congestion management strategies investigated.

Recommendation Eight:

Expand the use and scope of PPP's to procure public infrastructure, particularly in cases that will result in core services being delivered for better value for money.

The Property Council supports the recommendation to expand the use and scope of PPP's to procure public infrastructure.

The term 'Private Public Partnerships' covers the various arrangements under which the private sector might build, own and/or operate infrastructure. In their 2010 report, *Barriers to Competition and Efficiency in the Procurement of PPPs*, KPMG stated that Australian jurisdictions will typically only commit to a project following the allocation of its full capital cost within the relevant Government budgetary cycle. Where governments use PPPs, capital is allocated to cover the future stream of service payments. A problem with this is that it can constrain the number of projects that Australian governments will fund at one time. According to Infrastructure Australia, another issue with PPPs is that the current framework provides no incentive for them to bid on a more stable capital structure with longer term debt, which may offer the public sector better value for money in the longer term.

The Property Council advocates that alternative infrastructure procurement models be explored such as:

Urban Coalition Model

The Urban Coalition, a group of development, built environment and planning organisations (including the Property Council of Australia), have proposed a model that recommends the Australian Government collaborates with States and Territories to foster an urban infrastructure investment asset class. This asset class would offer lower risk, attractive credit-enhanced returns that appeal to both institutional and retail (mum and dad) investors.

Funds raised by issuing urban infrastructure investment products would capitalise a special purpose statutory investment vehicle – the Urban Infrastructure Fund – that would then provide seed finance to qualifying projects that meet criteria set by COAG.

UK City Deals Model

The UK City Deal model is based around a contract between an economic region and the central government. The deals typically run for at least ten years or longer, with each deal identifying a list of priority infrastructure projects to be delivered, along with benchmarks of economic and productivity growth to be achieved.

City Deal partners receive baseline funding from the government, providing long term certainty around core revenue streams. The partners are then encouraged to explore innovative forms of capital formation with the private sector. These include public private partnerships, local asset backed vehicles and tax increment financing.

Finally, this system rewards City Deal partners that exceed their growth benchmarks through the ‘earn back’ payment. These payments can be used to amortise debt obligations or capitalise new priority infrastructure projects.

Recommendation Nine:

Develop a process and guidelines for unsolicited infrastructure proposals from the private sector.

The Property Council supports the recommendation to develop a process and guidelines for unsolicited infrastructure proposals from the private sector.

Recommendation Ten:

Conduct a full investigation into the divestment of assets that pass the threshold criteria for private ownership.

The Property Council supports the recommendation to conduct a full investigation into the divestment of assets that pass the threshold criteria for private ownership. The Property Council advocates that the recycling of underutilised land and property assets should kick start the investigation as disinvestment of these assets will not face significant public opposition.

The debate to privatise assets has gained traction at both State and Federal government levels. The debate to privatise assets has typically focused on the economic efficiency and productivity gains however the debate has since focused on how recycling public assets can reduce debt and fund much needed infrastructure. However it is best practice policy to implement an asset management model that makes better use of scarce, new capital by recycling existing capital. A significant portion of the State’s existing capital is tied up in land and property assets.

Disinvestment of public assets is often faced with opposition as the public is concerned about job losses, higher prices and quick profits at the cost of service provision. Opponents are particularly vocal around government-owned assets that demonstrate monopoly characteristics that, when left unchecked, would be abused by the private sector. Recycling underutilised government land and property holdings would allow the Government to realise the revenue of public assets sales without unnecessarily triggering public fears, introducing

new regulation to control private sector monopolies or having to examine the suitability of public assets for sale.

In the 2013/14 Mid-Year Financial Projections Statement (Dec 2013), the Treasurer introduced a new raft of corrective measures under the Fiscal Action Plan which included a review of the Asset Investment program. The Treasurer specifically stated that "...the government has commenced a structured and coordinated process of asset sales, initially focussed on underutilised land holdings..." (Mid-Year Financial Projections 2013/14 pp. 2). The Property Council, therefore, would expect the Government to immediately implement the ERA's recommendation and announce an efficient process for identifying the land and property assets to be sold and a timeframe for the disposal process as soon as possible.

Reducing the Cost of Complying with Regulation

Recommendation Eleven:

Appoint a lead reform agency to work closely with senior departmental staff across all areas of Government to develop regulatory reform targets and monitor, enforce and publish performance against targets.

The Property Council supports the recommendation that the public sector needs to be held accountable to regulatory reform targets. Further to this recommendation, the Property Council recommends that the public sector needs to focus on how the regulation administration can be delivered more efficiently and at a reduced cost.

A prime opportunity to increase the efficiency of regulation administration is through private certification, where private certifiers can act as permit authorities without reference to public authorities. Efficiencies through private certification can be gained in the WA property sector in two instances:

1. Efficiencies can be gained by introducing full private certification of the building approvals process. The State Government, through its agency the Building Commission, introduced private certification of building permit applications in 2012. Full private certification exists in most states. Unlike other states however, the WA model still involves local governments. The involvement of local government in this process adds cost to the process of issuing building permits.
2. Efficiencies can be gained by introducing private certification of planning approvals processes. Private planning practitioners are already heavily involved in the preparation of development applications and there is potential for private sector assessment and certification of development applications. Introducing private certification of development would increase regulatory efficiency while maintaining desired regulatory outcomes.

The efficiencies achieved through private certification can be supported through the introduction of electronic processing of approvals. The administration of some regulations requires public sector decision making; development applications for example. Regulation administration would make significant efficiency gains through the introduction of electronic

processing systems. Current (predominately paper based) administration is highly inefficient and does not reflect industry best practice.

The Property Council, therefore, recommends that the lead reform agency also considers and adopts alternative models to administer regulation as well as develop reform targets.

State Taxes

Recommendation Twenty Six:

Consider options for reforming payroll tax, residential transfer duty and land tax:

- a) **Broadening the base and lowering the rate of all three taxes to increase their efficiency; or**
- b) **Increasing reliance on efficient taxes (land tax and payroll tax) and reducing or abolishing the inefficient taxes (residential transfer duty).**

The Property Council strongly supports the recommendation to consider options for reforming payroll tax, residential transfer duty and land tax.

The 2013/14 Budget papers demonstrate the structural imbalance between WA's revenue and expenditure growth. The State's budget is in a vulnerable position with limited fiscal options to influence revenue. Any meaningful attempts to address the structural imbalance between WA's revenue and expense growth need to incorporate strong policy reforms. Tax reform is the most effective tool to rectify public sector budgets. Fiscal discipline is required in the current financial context; however it should not be used as an excuse against well-targeted reform. Instead, it should be the catalyst.

Stamp Duty

Stamp duties are widely recognised to be one of the most distortionary state taxes. Generally, narrow-based transaction taxes are subject to more volatility and provide less predictable revenue than broad-based taxes. The 2013/14 Mid-Year Review demonstrated the volatile impact on revenue streams where downward revisions had to be made by more than \$125 million as a result of weaker than expected activity in the housing market and lower than anticipated collections from large property transactions.

Stamp duties greatly reduce the efficiency of the property sector. At the margin, transaction-based taxes lock people into inappropriate housing and discourage mobility. Against efficiency and equity criteria, stamp duty artificially penalises the movement of people into accommodation that best suits their needs. A disincentive such as this leads to an inefficient use of the housing stock at a time where unprecedented population growth as well as an ageing population demands an efficiently operating residential market.

Stamp duty detrimentally impacts the delivery of government policy objectives due to the inconsistency and inequity of its structure. Notably, the success of *Directions 2031* WA's urban growth policy to realise a more sustainable metropolitan region in the face of strong population growth, will be determined by the current stamp duty tax structure. The policy stipulates that 47% of new dwelling to be created in the Perth area should be located in the Perth suburbs. However, the current stamp duty structure discourages infill development in favour of land purchases with separate building contracts.

Furthermore, the 2013/14 State Budget introduced the Housing Supply Package to help alleviate the gap between housing supply and demand in the State. The Package aimed to stimulate the supply of new affordable rental dwellings at the total cost of \$268 million through to 2027/28, stimulate demand for newly built houses through changes to the first homeowners grant and reform the approvals process to ensure adequate housing supply responses. The Property Council strongly supports this Package. However, the Henry Review found that stamp duties reduce the effective supply of housing, discourage the development of new housing stock and increase cost of housing. The Review concluded that reforms to stamp duty could play a significant role in improving housing affordability. It is nonsensical that at a time of fiscal constraint, the Government's own tax structures act contrary to their own policy priorities. Given that the current tax structure not only limits revenue, but minimises the impact of policy expenditure, reform is a necessity.

In relation to the commercial property market, stamp duty is essentially a tax on business inputs, thus reducing business flexibility and competitiveness. Stamp duty reduces the attractiveness of commercial property as an investment as the cost decreases the return. The commercial property sector is as price-sensitive as any market focused on capital attraction and retention. Overtime, the actual burden of stamp duty in the commercial sector is shifted forward to business customers including commercial tenants and investors. Increasingly commercial tenants and investors are everyday Australians saving through superannuation funds.

Land Tax

Land tax is a significant contributor to WA tax revenue, raising an estimated \$657 million in 2013/14 budget and some \$2.4 billion in current forward estimates². In WA, land tax is an annual tax based on the aggregated taxable value of all land owned at the entity level.

When applied uniformly across a broad base, land tax is cited as the most efficient tax structure from which governments can raise revenue³. It is considered efficient as the land asset is immobile and has a fixed supply and as a result of these characteristics land tax is less distortionary than other tax structures. The land tax structure in WA, however, does not live up to this expectation and as a result is highly inequitable.

Ultimately, how land tax is structured will determine its efficiency and equity. The WA land tax structure is inefficient and inequitable as it does not cover all types of land, all ownership structures and incorporates tax-free thresholds as well as numerous exemptions that continually diminish the tax base.

In 2011, the Property Council conducted research to investigate the impacts of WA's current land tax structure. In the last ten years, total land tax revenues have doubled but the number of land tax payers has declined by 50%. This has resulted in the average land tax assessment in WA growing twice as fast as the growth in total tax revenue.

The research concluded that the number of land tax assessments in WA has narrowed by 41%. Within this narrow group of tax payers paying the State's land taxation, an even smaller

² Western Australian State 2013-14 Budget

³ Treasury.2010. Australia's Future Tax System: The Henry Review. www.taxreview.treasury.gov.au

group of 6.2% pay an estimated 79% of the total land tax. These findings were reconfirmed in the WA State 2013/14 Budget, where around 80% of taxpayers paid less than \$700 in land tax – accounting for only 3.67% of total land tax revenue. Furthermore, the 2013/14 State Budget demonstrated that 1.7% of tax payers accounted for more than 60% of the total land tax revenue:

State Budget 2013/14 Land Tax by Amount and No. Land Tax Payers					
Tax Threshold	Number of Tax Payers	Land Tax Fee	Percentage of Tax Payers	Total Land Tax Paid	Percentage of Land Tax Paid
\$300,000	-	\$0	0.0%	\$0	0%
\$400,000	31,957	\$100	28.5%	\$3,195,700	0.49%
\$500,000	18,981	\$200	16.9%	\$3,796,200	0.58%
\$600,000	12,748	\$300	11.4%	\$3,824,400	0.58%
\$ 700,000	9,843	\$400	8.8%	\$3,937,200	0.60%
\$800,000	6,778	\$500	6.0%	\$3,389,000	0.52%
\$900,000	5,079	\$600	4.5%	\$3,047,400	0.46%
\$ 1,000,000	4,176	\$700	3.7%	\$2,923,200	0.44%
\$2,000,000	14,933	\$6,000	13.3%	\$89,598,000	13.64%
\$3,000,000	3,687	\$18,020	3.3%	\$66,439,740	10.11%
\$4,000,000	1,447	\$31,720	1.3%	\$45,898,840	6.99%
\$5,000,000	711	\$45,420	0.6%	\$32,293,620	4.92%
\$10,000,000	1,238	\$126,070	1.1%	\$156,074,660	23.76%
\$ 10,000,000+	676	\$126,070	0.6%	\$ 242,582,040	36.92%
Total	112,254		100.0%	\$ 657,000,000	100%

The above research clearly supports the assertion that land tax in WA is indeed applied unequally and unfairly resulting in a disproportional system of land taxation where a small minority generate a majority of land tax receipts. The narrowing tax base has increasingly shifted the burden of land tax onto larger landholders – mostly owners of multiple properties and their tenants. Over the long-term the sustainability of tax revenue is threatened as the tax base narrows, and in the short term it limits the organic growth of land tax revenue based on the current valuation criteria.

The inequity and unfairness of the current land tax system is magnified by the practice of aggregation at an entity level where owners of multiple properties are required to pay up to three times more land tax than a system that does not apply aggregation. Ultimately, the current land tax structure makes property a less attractive investment as it is usually highly geared and significantly affected by tax policy particularly for institutional investors⁴. The economic incidence of this tax is passed on to the tenants or reduces investor returns, which distorts the WA property sector and erodes its efficiency. The table below demonstrates the inequity of the aggregated land tax liability:

⁴ Property Council of Australia. 2001. Land Tax Hikes- A Cost to Jobs: An Information paper for the WA State Government. 26th October 2001.

Date	Land Tax as Assessed	Increase over Prior Year	Land Tax Non-Aggregated	Additional land Tax due to Aggregation	%
30/06/2013	\$1,932,663	\$290,545	\$585,516	\$1,347,147	230%
30/06/2012	\$1,642,118	\$30,647	\$486,006	\$1,156,112	238%
30/06/2011	\$1,611,472	\$62,660	\$468,242	\$1,143,230	244%
30/06/2010	\$1,548,812	\$14,360	\$432,455	\$1,116,357	258%
30/06/2009	\$1,534,452		\$ 426,967	\$1,107,485	259%
	\$8,269,516		\$2,399,185	\$5,870,332	

WA's unequitable tax system has spurred the Property Council to launch the "Make Land Tax Fair" Campaign. The Campaign advocates that the current system of land tax is unfair and calls on the State Government to review the land tax system to make it fairer by broadening the land tax base and more equitably distributing the land tax burden. The Property Council believes that WA is long overdue for tax reform and land tax should take highest priority on a tax reform agenda. A new system of land tax will provide an efficient, predictable and sustainable source of revenue to government without distorting the market.

Land tax contributes 20% of total property tax revenue and therefore has a significant role in determining the success of the State's Fiscal Action Plan. Given that the 2013/14 Budget forecast 'underlying' revenue growth to increase at just 5%, a rate of growth insufficient to meet the growth in demand for key government services, a review of land tax is necessary to maintain the viability of taxation revenue.

The Productivity Commission states that land tax is one of the most expensive taxes to administer as the land needs to be valued⁵. There is, however, considerable scope to lower the cost of collecting revenue. Changing how the tax is administered; introducing a single rate system and reducing the number of thresholds. The administrative costs savings may also produce wider benefits, such as improved efficiency, equity and, in most cases, compliance. The initial administrative reforms would make inroads into the distortionary effects of land tax and would lay the foundations to reform the land tax system so that it generates more sustainable and efficient revenue with minimal market distortions.

Removing Barriers to Competition

Recommendation Twenty Seven:

Amend the *Retail Trading Hours Act 1987* such that retail trading hours in Western Australia are fully deregulated, with the exception of:

- a) Christmas Day;
- b) Good Friday; and
- c) ANZAC Day morning.

The Property Council supports in full the recommendation to amend the *Retail Trading Hours Act 1987* such that retail trading hours are fully deregulated. The ERA's analysis acknowledged that there is no legitimate reason for trading hours to be regulated. Current retail trading hours act as an inhibitor to employment, investment and customer convenience. Full deregulation would offer more flexible shopping arrangements for consumers, greater variety, increased competition and a more vibrant environment.

⁵ Gabbittas, O. and Elderidge, D. 1998. *Directions for State Tax Reform*. Productivity Commission Staff Research Paper. Ausinfo, Canberra

Trading hours impact the capacity of retail infrastructure and therefore is of significant interest to the property sector. Restricting trading hours to certain periods increases amenity-related congestion resulting in full car parks, queues at bathroom facilities, traffic jams around retail precincts, mobbed aisles and crammed public transport as retail demand cannot be evenly distributed throughout the day. Retail trading restrictions result in property owners having to invest in significant retail infrastructure capacity, which then is used only for very short periods and is otherwise idle. As a result capital resource allocation is distorted, from more innovative investments, into excess capacity. Deregulating trading hours will allow retail centres to reduce congestion and more efficiently allocate capital.

Recommendation Thirty One:
Abolish Keystart as soon as possible.

The Property Council does not support the recommendation to abolish Keystart. Keystart is an essential component of the Government's suite of policy responses to diminishing housing affordability in WA and it plays an important role in stabilising the volatile housing construction sector. These substantial social and economic benefits of Keystart exceed by a large measure the identified financial risk to the WA tax payer.

The very low default rate of Keystart borrowers (much lower than commercial home loan lenders) is evidence that the taxpayer risk of Keystart is acceptable. To further illustrate this Keystart requires aspiring borrowers to be qualified for a home loan at a rate of interest that is some three percentage points above the market average. Keystart also does not use 'low-doc' loan facilities utilised by commercial lenders.

Keystart represents less than four percent of the home loan lending market in WA and its capital requirements are prudently capped to limit the growth of its market exposure. These measures minimise Keystart's market influence.

If Keystart was abolished there would be substantial added pressures put on the State's expanding public housing waiting list. It will also consign larger numbers of households to compete in the limited private rental market.

Overall Comment

The Property Council supports the aforementioned recommendations to improve the efficiency and performance of the Western Australian economy.

Western Australian has ridden a wave on investment led growth leveraged on the rising Asian demand for natural resources. The State's strong economic performance is indisputable as economic growth average 4.8% per year over the last two decades compared to a national average of 3.4%. However, strong economic growth has masked the weaker performance of other fundamental economic indicators. Declining labour and capital productivity growth has declined to the extent that capital investment and terms of trade now drive growth. As the State transitions from resource sector construction to production, the impact of slowing productivity growth will become more prominent. The WA property sector is highly competitive, innovative and responsive to market demands, and therefore requires an

operational environment that supports such traits. Reforms to provide better value infrastructure, a more efficient and equitable tax system as well as a free retail environment would make significant inroads in supporting productivity growth within the property sector.

That said, governments design policies to support social outcomes. Policies such as Keystart provide significant net social benefits to Western Australia that would outweigh any form of economic risk to the Government.

Thank you for providing the opportunity to comment on the ERA's Inquiry into Microeconomic Reform Draft Report. The Property Council looks forward to working with the ERA to implement the supported recommendations.

Yours Sincerely,



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