

WESTERN AUSTRALIAN SEPTEMBER 2009 SUBMISSION

SERVICES TO INDUSTRY

Key Points

- Using data from the surveys on drivers of business development, the Commission should construct an assessment of business development needs along the same lines as the regulation assessment.
- If needs for business development are not assessed, then for consistency with the treatment of Commonwealth payments, the States' own-source revenue used to fund business development spending should not affect the relativities.
- Commonwealth social infrastructure payments that are associated with economic development projects (e.g. East Kimberley development package) should not impact on the relativities (i.e. similar to the treatment of Commonwealth payments for infrastructure in areas where needs are not assessed).

ASSESSING BUSINESS DEVELOPMENT

The Commission has used data for Services to Industry obtained from surveys to:

- split spending into a regulation component and a business development component; and
- identify the relative importance of drivers of spending programs – level of business activity vs number of businesses vs 'other'.

Using this information, the Commission has constructed an assessment for the regulation component of Services to Industry spending.¹

The same information could be used to construct an assessment for the business development component of Services to Industry spending, but this has not been done, for reasons summarised in the Draft Report (page 394) as follows:

¹ 'Other' is assessed EPC.

We have concluded that beyond the broad policy of providing assistance to business, there is little commonality among the State policies on why they provide the support, when it is provided and how it is provided. Spending on business development appears to be driven by the specific policies of each State.

Given the high level of uncertainty about the aims of business support and how to define and measure the underlying influences on it, we have decided to assess service use for business development on an equal per capita basis.

We do not agree that these are sufficient reasons to not assess differential needs for States.

- Differences in policies and perspectives among States are issues in many areas, including social services such as police (where there has been much debate about “community policing”). The equalisation task is to abstract from policy by focussing on underlying drivers of spending.
- The Services to Industry surveys provide a dataset of States’ views of the underlying drivers. This dataset has been used to construct an assessment for regulation (in effect, representing an average of States’ different views on regulation activities). A similar approach, reflecting the average of States’ views on business development activities, appears reasonable and consistent with the approach for regulation activities.

Western Australia has again discussed the drivers of business development spending with our key industry agencies. A strong message from these meetings was a duality of purpose in such spending, in both the agriculture and other industry areas:

- support aimed at existing players in the industry – to help ensure their ongoing viability and competitiveness, and strengthen and grow their operations; and
- support aimed at new players and greenfield opportunities.

Current priorities for new development in Western Australia include Ord River irrigation, a Kimberley LNG hub and opening up new iron ore deposits in the Midwest (including by developing a new port).

Our agencies noted that business development tended to be an important issue for governments regardless of whether the State economy was operating below capacity or close to capacity.

- For economies operating below capacity, the imperative is to sustain industries and promote growth to take up the spare capacity.

- For economies operating close to capacity, the imperative is, again, to help sustain industries but also to provide capacity for future growth, as this is needed to sustain activity and employment when existing investment is completed.

These considerations suggest that (like the assessment model for business regulation spending) an assessment model can reasonably be based on a combination of level of business activity, number of businesses and 'other' (the latter, which would be assessed EPC, reflects the unquantifiable opportunities for new development that each State has).

The Draft Report cites the following 'paradox' (page 394).

An argument can be made that a below average level of business activity is a disability because it indicates greater effort is required to promote business. On the other hand, an argument could be made that above average business activity is a disability because there are more businesses calling on State support for research, investment promotion and so on.

However, rather than a paradox, underlying motivations of States in relation to business development appear to be: support the industries you have, and look for new opportunities (as noted above, this is important for States with low and high activity levels).

Accordingly, we ask the Commission to reconsider its position on assessment of business development needs, and develop an assessment on the same principles as the regulation assessment, using the Services to Industry survey data on drivers of business development activities.

CONSISTENCY WITH TREATMENT OF COMMONWEALTH PAYMENTS

We understand that the Commission will in general aim to ensure no impact on relativities for Commonwealth payments that fund activities for which needs are not assessed.

For consistency, if the Commission determines that expenditure needs cannot be identified for Services to Industry spending on business development, then revenues that fund these expenditures should also not be redistributed.

- As "a dollar is a dollar", it can be assumed that an equal proportion of each revenue source is used to fund business development activities (or any other non-charged activity).
- Hence, the business development expenses should be netted off revenues in proportion to the size of each revenue source.
- A similar approach may also be warranted for parts of the Other Services category, such as culture and recreation and national park services.

TREATMENT OF COMMONWEALTH PAYMENTS ASSOCIATED WITH ECONOMIC DEVELOPMENT

The Commonwealth's \$195 million funding support for the East Kimberley (Ord River) development raises issues about the appropriate treatment of such payments for equalisation purposes.

- The Commonwealth's funding is largely to support social infrastructure, including in areas where needs are assessed (health, education and housing).² Western Australia will fund the 'economic' spending associated with this project, for which there is limited needs assessment.³
- We consider that the Commonwealth funding should not impact on relativities. Money is fungible, and it should not therefore matter if the Commonwealth funds the social or economic component of the development.
- This approach will also ensure that Commonwealth/State negotiations cannot "game" the system in future by agreeing that the State should fund 'equalised' activities, while the Commonwealth funds 'unequalised' activities.

² Some of the social infrastructure is in areas where needs are not assessed – aged care services and community facilities. We will discuss this further in responding to the Commission's 'New Developments' paper.

³ The economic spending (based on the Infrastructure Australia submission) includes access roads, channel widening and extension, port facilities and power upgrading. The access roads will have a small impact on needs.