

A reform agenda for Western Australia

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- 1) State taxes should be reduced to encourage growth.
- 2) Western Australia's urban planning policies need to be reformed around the importance of home ownership. This involves releasing land for housing, sale and construction, and also relieving restraints on infill land use.
- 3) Western Australia needs to retain students longer. The key to doing so is to increase the levels of competition between schools, levels of competition between teachers, increase accountability and ensure that teacher salaries are nationally attractive.
- 4) Western Australia's rail network should be privatised in 2009. A tender would specify the level of subsidy, and the performance benchmarks necessary to meet that subsidy.
- 5) WA needs a dedicated reform movement to par back some of these outdated and onerous regulations. It also should set up formal agencies dedicated to regulatory review, and mandate that each new regulation is subject to a regulatory impact statement before implementation.
- 6) The Western Australian government should restrain the regulatory appropriation of land under the *Western Australian Environmental Protection Act*, and compensate landowners for future appropriations.
- 7) Western Australia should set up a voluntary electronic patient record system, and provide online performance indicators, to empower patients and increase the value of the Western Australian health system for Western Australians.
- 8) The Western Australian government needs to implement a broad range of initiatives to reduce unnecessary spending.
- 9) With the wealth created by the resources boom, Perth could easily be a cultural capital of Australia. But doing so requires a widespread deregulatory reform movement, focused on making the city appealing to both cultural producers and to cultural consumers.
- 10) Western Australian electricity generation, distribution and transmission should be privatised. Regulation affecting gas networks needs to be liberalised to facilitate further network expansion.

Ten problems, ten needed reforms

Western Australia has some of the highest taxes in the nation

Western Australia now has some of the highest per capita taxes in the nation. Part of this is a consequence of WA's rapidly growing wealth, but it is also a consequence of a lack of enthusiasm for tax reform. That Western Australia is a wealthy state does not excuse or necessitate high tax burdens—times of economic success are the times when states are best able to reduce their tax burden with minimal disruption. Reducing taxes would also add to the economic prosperity of the state, and further help it weather any future international downturn. Western Australia cannot hope to be both the wealthiest state in the country and the highest taxed for too long.

State taxes should be reduced to encourage growth.

Housing is too expensive

Western Australia, like many other housing markets across the country, is suffering from artificially inflated house prices caused by government planning processes. Urban house prices are skyrocketing as a direct consequence of thirty years of planning orthodoxy that prioritised density over affordability. That the cost of housing is artificially high can be demonstrated by comparing Perth with an analogous city that is not restrained by restrictive land release policies, in this case Houston.

And as house prices are going up, home ownership is going down, with younger and poorer families bearing the brunt of this effect.

Western Australia's urban planning policies need to be reformed around the importance of home ownership. This involves releasing land for housing, sale and construction, and also relieving restraints on infill land use.

Secondary education needs to be attractive relative to employment

Western Australia enjoys high quality education relative to other Australian states and relative to the rest of the world. Its spending on public education is the highest of the states, but it gets good value for money for its education system—Western Australian students are among the top performers internationally in science, reading and maths.

However, Western Australia faces two challenges unique to the state. It has a high proportion of indigenous and remote students which present particular pedagogical and resource challenges. Furthermore, it has a lower than average year 12 completion rate, a rate which has begun to slip backwards in recent years.

A major reason for this lower completion rate is the attractiveness of work in WA. However, failing to complete year twelve places students at a disadvantage for future employment, particularly if the boom slows.

Western Australia needs to retain students longer. The key to doing so is to increase the levels of competition between schools, levels of competition between teachers, increase accountability and ensure that teacher salaries are nationally attractive.

Public transport underperforms compared to its potential

Perth's metropolitan rail network—and the many users of public transport who rely on it each day—would benefit enormously from the introduction of a user-centric transport network that would be brought about through privatisation. Public transport privatisation has many precedents within and without the state. The Transperth bus network and the Swan River ferry service are now privately operated, and much of the facilities management and cleaning of the rail network has been effectively privatised through contracting arrangements.

Analogous privatisations in other states have shown how privatisation can increase flexibility and punctuality, convenience, and most importantly, patronage. And crucially, any privatisation process can rely on the experience of others across the country.

Western Australia's rail network should be privatised in 2009. A tender would specify the level of subsidy, and the performance benchmarks necessary to meet that subsidy.

State regulation is growing and is poorly designed

Western Australia's regulatory burden is increasing. The increase in regulation and legislation over the last few decades is diverting resources away from productive work, restricting entrepreneurial activity, and ultimately depressing the Western Australian economy. In many cases, Western Australia has been a pioneer at forging new areas for regulation, while in other cases the state has failed to deregulate areas which have been successfully liberalised across the country.

Furthermore, the administrative mechanisms by which regulations are made are among the worst in the country. Proposed regulations are subject to little internal or external scrutiny, and subject to less consultation with affected industries than in other states.

WA needs a dedicated reform movement to par back some of these outdated and onerous regulations. It also should set up formal agencies dedicated to regulatory review, and mandate that each new regulation is subject to a regulatory impact statement before implementation.

Environmental protection laws are undermining Western Australian agriculture

Over the last few decades, there have been fundamental changes in the way Western Australian property owners have been able to use their land. These changes have come about from the introduction of mostly well-meaning environmental legislation that effectively nationalises private property, removing it from productive use. By utilising provisions in the *Western Australian Environmental Protection Act*, the government is able to designate certain areas of farmland as of high conservation value area, preventing their use by the owner.

The government is under no obligation to compensate landowners for regulatory appropriation, which both depresses economic development, and encourages the over-classification of land as conservation area.

The Western Australian government should restrain the regulatory appropriation of land under the *Western Australian Environmental Protection Act*, and compensate landowners for future appropriations.

Health performance indicators need to be transparent and accessible

Western Australia is a leader in the use of private hospitals to service public patients. While Western Australia spends slightly more on health than the national average, the use of private provision has served to reduce the cost of hospital services, without sacrificing treatment efficacy.

However, one clear area for reform is in patient empowerment. While Western Australia provides a number of patient information services and performance indicators, without a dedicated online service, patients are unable to easily access this information, and therefore less able to assess the quality of hospital service. Furthermore, patients and providers suffer from patient records which are inconsistent and incomplete, largely inaccessible to the health care providers which require them.

Western Australia should introduce a voluntary electronic patient record system, and provide online performance indicators, to empower patients and increase the value of the health system for Western Australians.

Spending is unrestrained

Government spending can have perverse consequences which are unintended by policy makers. Western Australia's nationally high spending in many areas, in particular recreation, can crowd out private provision of services and cost tax-payers more than their value. Furthermore,

government spending has the effect of locking in high—and increasing—levels of taxation, slowing growth.

The WA government, as with all Australian governments, has allowed its spending to increase in line with increases in revenue. This has the perverse effect of seeing government expand at the same time as the economy is booming. This spending increase indicates that government is allowing increased revenue to delay making tough reform choices.

The Western Australian government needs to implement a broad range of initiatives to reduce unnecessary spending.

Cultural policy

The levels of economic growth experienced by Western Australia should bring significant cultural and social dividends. But a mix of regulations and laws which restrain cultural production are hampering WA's significant potential in this area. Restrictive land policy makes it hard for cultural producers to find and construct artistic venues. Restrictive liquor licenses make it hard for venues to subsidise artistic events. Restrictive trading policies—particularly WA's regressive shop trading hours—prevent urban areas from the vibrancy that is necessary to build a cultural capital. Limited taxi licenses make late-night travel unappealing, as at least 10 per cent of travelers fail to order taxis successfully.

With the wealth created by the resources boom, Perth could easily be a cultural capital of Australia. But doing so requires a widespread deregulatory reform movement, focused on making the city appealing to both cultural producers and to cultural consumers.

Energy is unreliable and over-regulated

Western Australia's electricity markedly underperforms compared to the eastern states. Electricity generation is notably less reliable. The minutes of electricity lost through transmission exceeds all the other states combined. Outages in local distribution are regularly the highest in the country.

Based on the experience of other states, privatisation, accompanied by splitting the state generator into two firms, provides an effective remedy for these sorts of issues. Privatisation gives energy firms the flexibility and incentive to perform better.

Furthermore, the expansion of gas pipelines is held back by regulatory control which takes pricing decisions away from entrepreneurial pipeline owners.

Western Australian electricity generation, distribution and transmission should be privatised. Regulation affecting gas networks needs to be liberalised to facilitate further network expansion.

Project Western Australia

The need for a new approach

The need for a new approach to policy formulation in Western Australia is abundantly clear. If Western Australia is to fully profit from the opportunities presented by its natural wealth and the rise of the Asian economies, then a new attitude is needed.

Project Western Australia is a forward-looking joint program of the Mannkal Economic Education Foundation and the Institute of Public Affairs, Australia's leading free market think tank. Project Western Australia is aimed at stimulating policy discussion and development.

During 2007 and 2008, research experts in many fields conducted original and innovative policy research to provide a blueprint for a forward-looking Western Australian government. These papers are available at www.ipa.org.au.

The Institute of Public Affairs

The Institute of Public Affairs is an independent, non-profit public policy think tank, dedicated to preserving and strengthening the foundations of economic and political freedom.

Founded in 1943, the Institute has an exceptional reputation as the leading Australian political think-tank, and remains at the forefront of the political process, defining the contemporary political landscape.

About the authors

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Introduction

Introduction: the outlook for Western Australia

In 1993, the Institute of Public Affairs published *Reform and Recovery: An Agenda for the New Western Australian Government*, a landmark study that concluded that despite moderate economic success, the Western Australian government had failed to capitalise on its opportunity to undertake, broad-based economic reform that would lock in that prosperity.

The same could be said now in 2008. The government has been living off the economic prosperity caused by the mining boom without committing to the low tax rates and low regulatory burdens that are the prerequisite for independent long term growth. Without broad based reform, Western Australia is vulnerable to economic downturn. It is the view of the IPA that Western Australia needs to reform in the good times, rather than wait to be compelled to do so either by slowing economic growth or federal interference.

This chapter provides an overview and outlook for the Western Australian economy, and outlines the key policy challenges that lay ahead for the next state government, regardless of which political party wins the next election. As this chapter points out, the Western Australian economic boom has been prolonged and deep. But with great success comes constraints. There are many troubling signs on the economic horizon. Labour productivity is declining, yet wage pressure is intensifying. Taxation and spending policies have failed to adjust to the boom. Regulation is increasing exponentially, and regulation making is well below best practice. Energy, which has rightly dominated much political discussion, is less reliable than in any other state, and increasingly so.

Western Australia faces unique policy challenges. This reform document provides practical, concrete measures for Western Australia to face those challenges and further capitalise on its economic success.

The impact of the boom

Since its proclamation as a self-governing colony in 1890, Western Australia has been renowned globally for its natural attractions, extensive mineral wealth, technologically advanced industries and highly skilled workforce. It is with these comparative advantages that the state has forged a reputation for economic success.

And over the past ten years, Western Australia has become an 'engine room' of the Australian economy. This development has been attributable to a host of favourable international and domestic economic conditions.

International conditions

Since the Asian financial crisis of the late 1990s, global economic growth has rebounded to average 3 per cent over the course of this decade (Table 1).¹ This trend appears to be broadly based across the advanced economies.

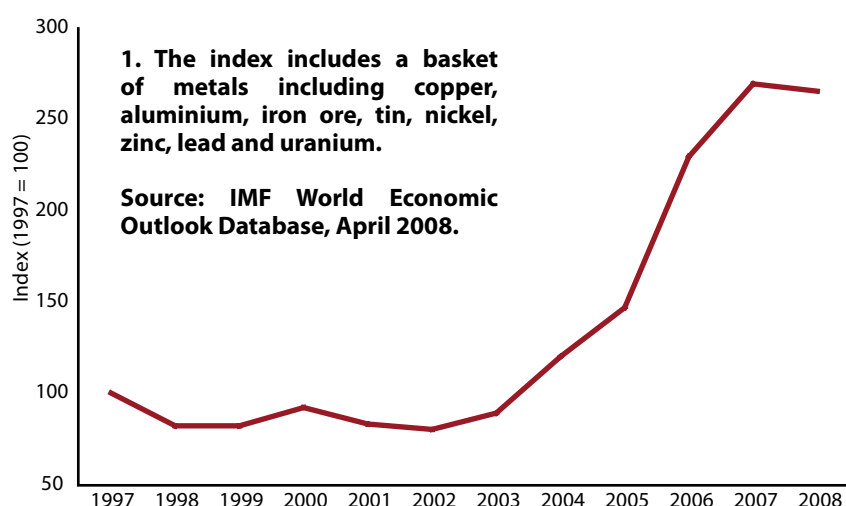
There has also been exceptionally strong growth recorded in the emerging markets of China and India. The performance of these 'Asian tigers', and the recovery of Organisation for Economic Co-operation and Development economies, has created an unprecedented surge in demand for, and the prices of, mineral commodities (Figure 1).

Table 1: International economic growth (GDP, annual percentage change, constant prices)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 (est.)
Global aggregates												
World	3.5	2.1	3.1	4.1	1.5	1.9	2.6	4.0	3.4	3.9	3.7	2.6
Advanced economies												
United States*	4.5	4.2	4.5	3.7	0.8	1.6	2.5	3.6	3.1	2.9	2.2	0.5
United Kingdom*	3.1	3.4	3.0	3.8	2.4	2.1	2.8	3.3	1.8	2.9	3.1	1.6
Euro area (15 countries)	2.6	2.8	3.0	3.8	1.9	0.9	0.8	2.1	1.6	2.8	2.6	1.4
Japan*	1.6	-2.0	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.4	2.1	1.4
Newly industrialised economies												
Korea (Republic of)*	4.7	-6.9	9.5	8.5	3.8	7.0	3.1	4.7	4.2	5.1	5.0	4.2
Singapore*	8.3	-1.4	7.2	10.1	-2.4	4.2	3.5	9.0	7.3	8.2	7.7	4.0
Taiwan	6.6	4.5	5.7	5.8	-2.2	4.6	3.5	6.2	4.2	4.9	5.7	3.4
Emerging market & developing economies												
China*	9.3	7.8	7.6	8.4	8.3	9.1	10.0	10.1	10.4	11.0	11.4	9.3
India*	4.7	6.0	7.1	5.5	3.9	4.6	6.9	7.9	9.1	9.7	9.2	7.9
Indonesia*	4.7	-13.1	0.8	5.4	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1
Malaysia	7.3	-7.4	6.1	8.7	0.5	5.4	5.8	6.8	5.0	5.9	6.3	5.0
Thailand*	-1.4	-10.5	4.4	4.8	2.2	5.3	7.1	6.3	4.5	5.1	4.8	5.3
United Arab Emirates*	7.9	0.1	3.1	12.4	1.7	2.6	11.9	9.7	8.2	9.4	7.4	6.3

1. Countries labelled with an asterisk are major trading partners of Western Australia.
Source: IMF World Economic Outlook Database, April 2008.

Figure 1: Global commodity metals price index



This resources boom has been pivotal in explaining the robustness of Western Australia's external sector in recent years. Not only has the state's terms of trade improved,² but there has also been an upswing in merchandise exports—from \$1.7 billion in mid-1997 to \$6.4 billion in mid-2008.

Domestic conditions

The economic benefits of global economic growth and the resources boom have extended beyond the traded sectors, to positively influence almost every aspect of the Western Australian economy.

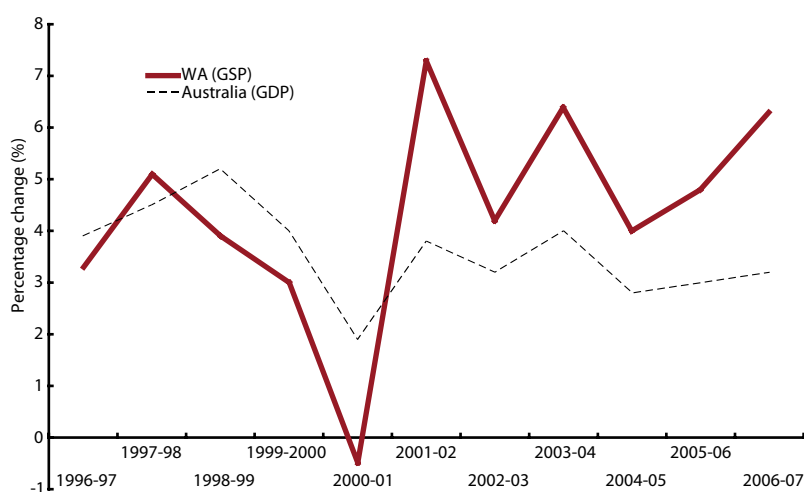
Economic growth and incomes

According to Australian Bureau of Statistics State Accounts data, Western Australia has averaged an economic growth rate of 4.3 per cent over the decade to 2006-07. By comparison, the Australian economy has grown by about 3.6 per cent over the period. This has been particularly obvious since 2003, when growth in Western Australia accelerated above that of Australia as a whole. (Figure 2)

As a consequence, after accounting for population, Western Australia had the highest gross state product per capita of all the states and territories in 2006-07 (Figure 3). Western Australia's output per head of population exceeded that of NSW and Victoria by about 30 per cent, which is illustrative of a 'two-speed economy' effect across Australia.

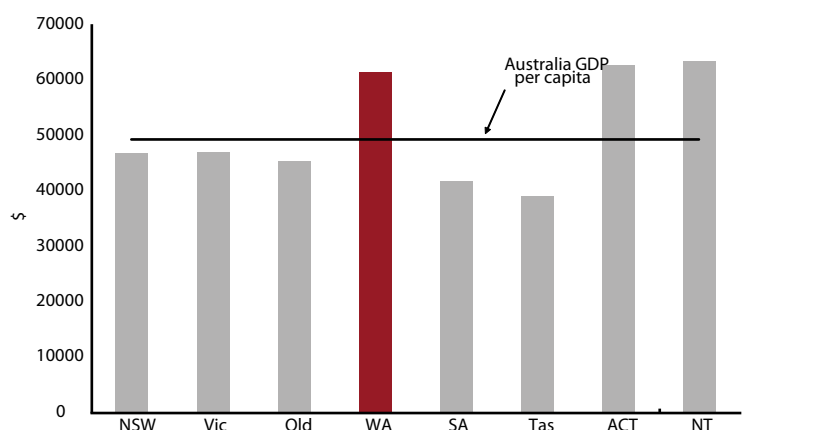
Growth was recorded across all expenditure components of GSP (Table 2). The main drivers of growth were business investment (up \$18 billion or 158 per cent) and household consumption (up \$19 billion or 53 per cent), while dwelling investment also made a significant contribution.

Figure 2: Annual output growth, 1996-2007



Source: ABS, Australian National Accounts: State Accounts, Cat. no. 5220.0.

Figure 3: Gross state product per capita, states and territories (chain volume measures, 2006-07, \$)



Source: ABS, Australian National Accounts: State Accounts, Cat. no. 5220.0.

Employment and earnings

Western Australia's strong macroeconomic performance has flowed through to the labour market (Table 3). Excluding the Australian Capital Territory and Northern Territory, Western Australia had the highest participation rate and lowest unemployment rate of all jurisdictions in 2007-08.

While the growth in state wages has closely tracked the national trend for much of the past ten years, wage pressures have recently intensified. This is reflected in the growing gap between the state and national wage price indexes (Figure 4).

Productivity

Productivity is a measure of the rate at which goods and services are produced per unit of input (such as labour or capital). Growth in productivity is an important indicator of the capacity of an economy to generate higher incomes and thus sustain improvements in living standards.

The available evidence suggests that Western Australia has recorded relatively strong productivity growth over the

long term. It has been estimated that the average annual labour productivity growth rate for Western Australia was about 2 per cent (the equal highest of all states) from 1993-94 to 2005-06.³ The state's multifactor productivity growth was estimated at 1.3 per cent for the same period (behind Queensland's growth of 1.6 per cent).⁴

A detailed analysis of a recent productivity cycle (1998-99 to 2003-04) found that Western Australia shared the highest average annual growth of labour productivity (with Queensland) of 2.8 per cent over the period. However, in 2004-05, the state's labour productivity growth fell by 3 per cent compared to the previous year.⁵ Western Australia's labour productivity growth was generally flat in recent years.⁶

Table 2: Western Australia GSP, expenditure components (\$ million)

	1996-97	2006-07	Increase (\$m)	Increase (%)
Household consumption	36,027	55,121	19,094	53.0
Business investment	11,487	29,674	18,187	158.3
Dwelling investment	7,080	10,817	3,737	52.8
Government spending	14,328	20,578	6,250	43.6
Net exports	26,853	32,949	6,096	22.7
Balancing item	-12,880	-21,364	-8,484	65.9
Gross State Product	82,905	127,775	44,870	54.1
Gross State Product per capita	46,565	61,490	14,925	32.1

1. Business investment data for 1996-97 excludes purchase of second hand assets. Dwelling investment totals include ownership transfer costs. Balancing item implicitly comprises changes in inventories, total net interstate trade and balancing item discrepancy. Subtotals may not sum to total due to statistical discrepancies or rounding errors.

Source: ABS, Australian National Accounts: State Accounts, Cat. no. 5220.0.

Table 3: Selected labour market indicators (trend series)

	1997-98			2007-08		
	Employment ('000)	Participation rate (%)	Unemployment rate (%)	Employment ('000)	Participation rate (%)	Unemployment rate (%)
NSW	2,834	61.5	7.4	3,398	63.5	4.6
Vic	2,136	63.2	8.2	2,627	65.0	4.5
Qld	1,586	64.9	8.7	2,159	67.1	3.7
WA	874	66.2	6.8	1,125	68.3	3.3
SA	650	60.7	9.6	772	62.8	4.8
Tas	195	59.0	10.5	231	60.9	4.9
ACT	154	71.3	7.3	190	72.5	2.6
NT	90	70.3	4.9	109	72.9	4.4
Australia	8,519	63.1	8.0	10,611	65.2	4.2

Source: ABS Labour Force, Australia, Spreadsheets, Cat. no. 6202.0.55.001; Moore 2006.

Western Australia's position is uncertain in a gloomy international economic outlook

Given the overall strength of Western Australia's economic performance, it would be easy to conclude that the good times will carry on indefinitely. However, the current economic climate has brought with it challenges which could threaten the medium to long term outlook for the state economy.

There are more uncertainties in the global economic outlook than at any other time over the past few years. The global 'credit crunch' is still unfolding and, although its direct effect on the Western Australian economy has been modest to date, higher interest rates and a lack of liquidity in credit markets may place downward pressures on state household consumption, business investment and the housing market. Business and consumer confidence in the economic outlook have also softened in recent months.

There is also the risk that a greater-than-expected downturn in the US, Europe and Japan could hinder growth for WA's major trading partners in the emerging markets of Asia. This could, in turn, lead to a reduction in demand and prices for commodity exports—and, hence, curtail the resources boom that has underpinned the state's economic prosperity.

A more pressing concern appears to be increasing

wage and input costs due to tight labour market conditions and capacity constraints. According to the state's Chamber of Commerce and Industry:

'the most critical challenge that is facing Western Australia is the emergence of critical and widespread labour shortages. Since the current phase of economic expansion started six years ago, almost 200,000 jobs have been created in the WA economy. However, these additional people employed throughout the WA economy have not been sufficient to meet demand, with labour shortages becoming a key limiting factor to additional growth in this state'.⁷

Indeed, growth in wage and other costs are nearing record levels, signalling a build-up in inflationary pressures for the broader state economy. Apart from their effect on costs, the continuation of capacity constraints could also lead to the delay or deferral of major investment projects.

One of the more serious threats to the state's economic outlook, over the long run, is the prospect of stalled or declining productivity growth. To some extent, the flat growth rate of labour productivity in recent years could be explained by the absorption of additional workers (that require training) by Western Australian businesses, or business investment activities that have not yielded output to date.

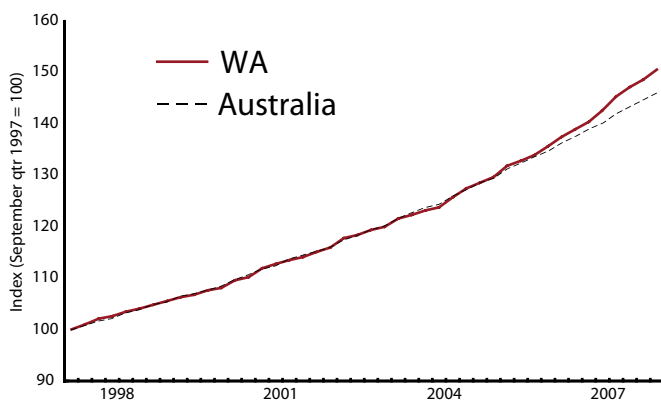
However, state government fiscal and regulatory settings that impede economic development could dampen Western Australia's productivity outlook.

Western Australia has some of the highest tax burdens in the nation

In 2006-07, the Western Australian government collected \$5.7 billion in tax revenue. That is up an astonishing 98 per cent from the 2000-01 tax take. Further, the tax burden has increased dramatically over the past decade. According to Australian Bureau of Statistics data, the per capita tax burden has increased from \$2,079 in 1998-99 to \$3,229 in 2006-07. That figure, however, understates the increase in Western Australian state taxation because it does not take the GST reforms into account. In 2000-01, the per capita state taxation take was a mere \$1,870. Since 2003-04 Western Australia has had an above average taxation tax take compared to the other states and territories, and after 2005-06, Western Australia has had the highest per capita level of state taxation within Australia. The most obvious explanation for this growth in taxation is the overall economic growth of WA. It is important to note, however, that the tax take has increased far more than the size of the Western Australia economy.

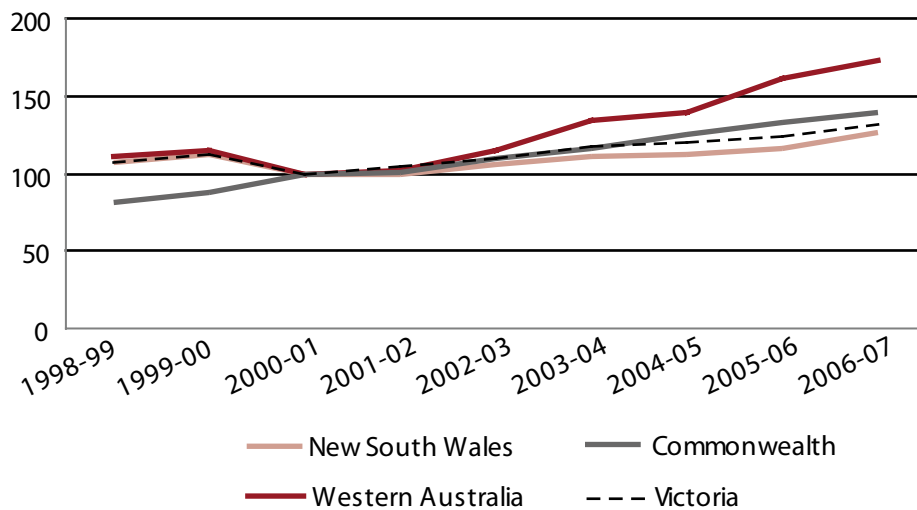
Figure 5 shows the growth in Western Australian taxation per capita compared to the growth in per capita

Figure 4: Wage price index (ordinary time hourly rates excluding bonuses, all sectors and occupations)



Source: ABS Labour Price Index, Australia, Cat. no. 6345.0.

Figure 5: Relative Taxation
2000-01 = 100



taxation for the Commonwealth and also for New South Wales and Victoria. An index is created for each series with the values in 2000-01 = 100.

The growth in per capita Western Australia taxation has far exceeded that of New South Wales, Victoria and the Commonwealth.

The largest sources of increased tax revenue come from payroll tax (growth of 93 per cent since 2000-01) comprising 28 per cent of state revenue, and stamp duty (growth of 246 per cent since 2000-01) comprising 38 per cent of state revenue. Increases of this magnitude for those sorts of taxes are entirely consistent with WA's status as a high growth state. It is entirely unsurprising that taxation revenue in these categories has increased to the extent that it has. It is also the case that the Western Australian government has shown little initiative to either increase the tax rates, or to decrease the tax rates. In other words, the massive increase in tax revenue is simply due to improved economic conditions in WA. The government has been a passive recipient of all of this tax revenue.

Business Taxation

Using the Institute of Public Affairs's State Business Tax Calculator, it is possible to examine the business taxation environment of Western Australia and compare that to other states.⁸

The state business tax burden has fallen in Victoria, New South Wales and Western Australia from 2007 to 2008. The decline in Western Australia's business tax burden is about 4.5 per cent—similar to that of Victoria. Given the economic growth that Western Australia has experienced, it is clear that more can be done in this regard.

Despite a record tax take, there has been no movement towards tax reform or initiatives to restrain spending.

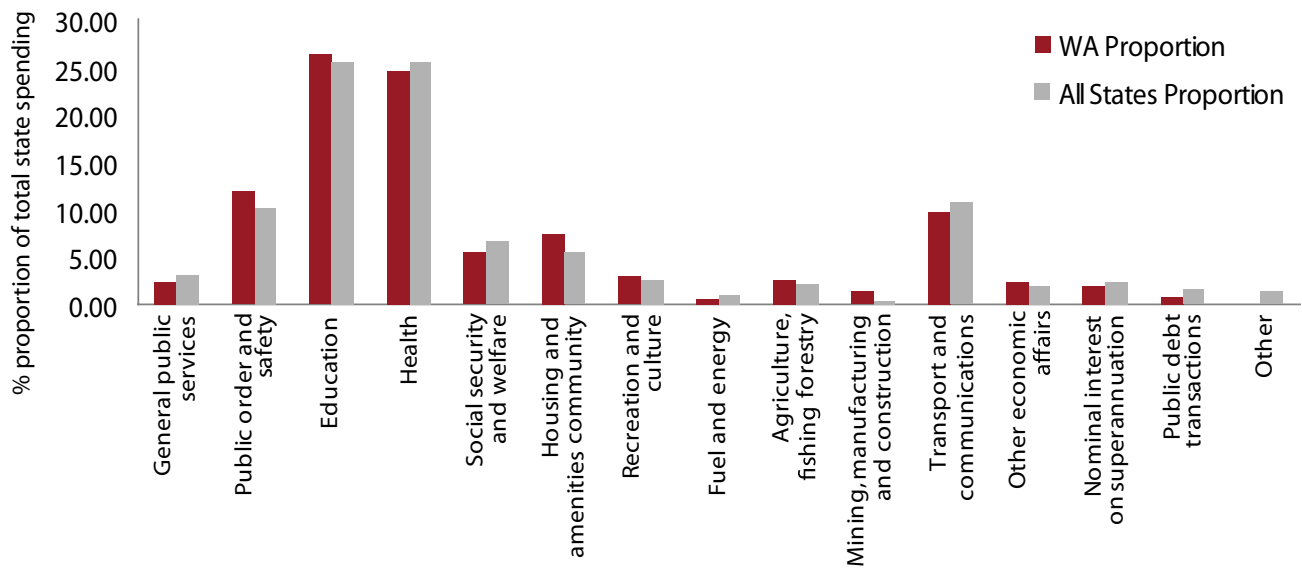
Government spending is unrestrained

Figure 6 compares the expenditure choices of the Western Australia government to those made by other Australian state and territory governments. In many respects, those choices are very similar and given the constraints and incentives facing the various states and territories, we are not surprised to find similarities at the broader level. At the aggregate level, Western Australia does appear to spend a greater proportion of its budget on public order and safety, housing and community amenities, and also recreation and culture. At this level of analysis, Western Australia appears to spend less of its budget on general public services and social security and welfare.

Within those broader categories there are additional choices that the government has made that can be highlighted. For example, the overall budget spend on education is broadly similar to the other states, yet the Western Australian government has increased spending on primary and secondary schooling while cutting expenditure on post-secondary schooling. Similarly with health, the government has spent a lot less on acute health institutions while spending much more on recreational facilities and services.

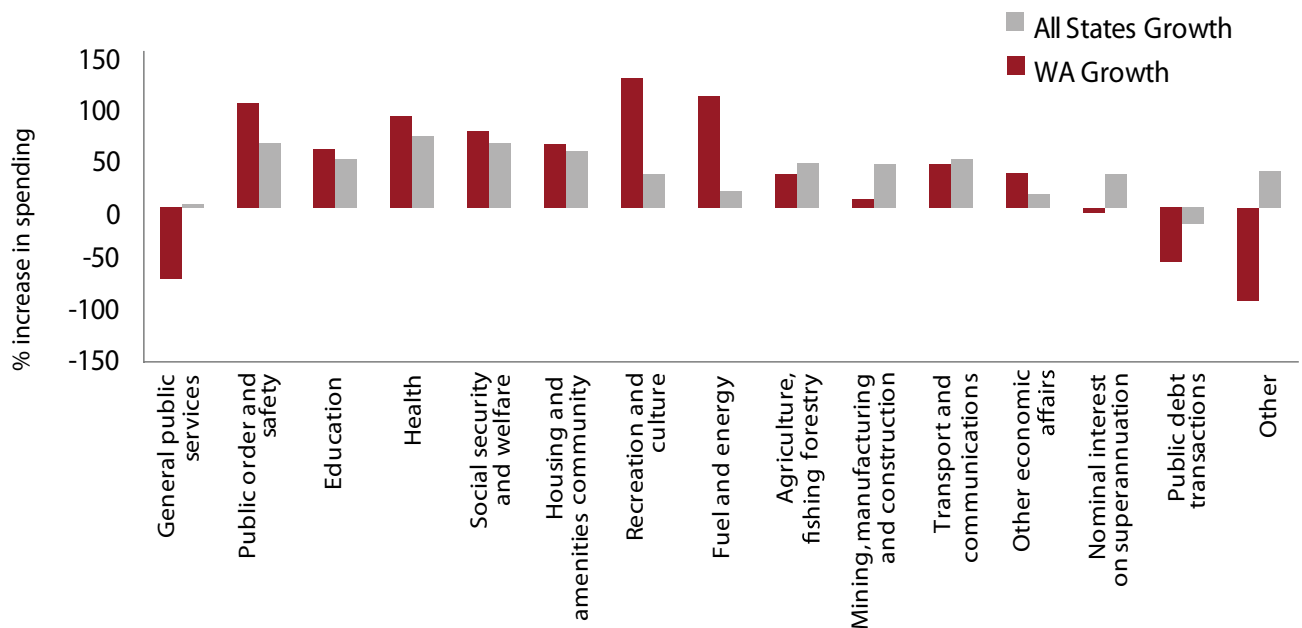
Similarly, we are able to investigate the growth in spending across various categories. Figure 7 shows the growth in spending between 2000-01 and 2006-07. The priorities of the Western Australian government in some areas have been very different to those of the other state and territory governments. For example, the growth in spending in public order and safety has been very large, while general public services spending has fallen dramatically.

Figure 6: State Expenditure



Source: ABS Statistics. Cat. 5512.0 (2006-07 data)

Figure 7: Growth in Spending
2000-01 to 2006-07



Source: ABS Statistics. Cat. 5512.0

Western Australia's regulatory burden is heavy and increasing

The Western Australian government has been imposing a steady legislative and regulatory burden upon the Western Australian economy and society. Figure 8 shows the significant increase in pages of legislation passed—a standard proxy for changes in the relative regulatory burden—over the last half century.⁹

Comparing the regulatory burden between states is difficult. Nevertheless, evidence suggests that Western Australia is a particularly heavily regulated state. The Chamber of Commerce and Industry Western Australia surveyed its members and found that regulatory compliance impacted business particularly heavily.¹⁰ These businesses nominated the pace of regulatory change as a distinct issue. Small businesses reported that they spent up to 18.5 hours each week complying with existing regulations, researching new and amended laws and changing internal systems and business processes to cope with regulatory changes. For medium sized businesses, that figure increased to 26.4 hours, and large firms spent on average 70.3 hours on regulatory issues each working week.

The CCIWA estimate that the average compliance costs for small businesses were \$24,500, ranging up to \$525,421 for large firms. They further estimates that this yielded a total cost of regulatory compliance of \$2.1 billion across the state, or almost 2 per cent of GSP.

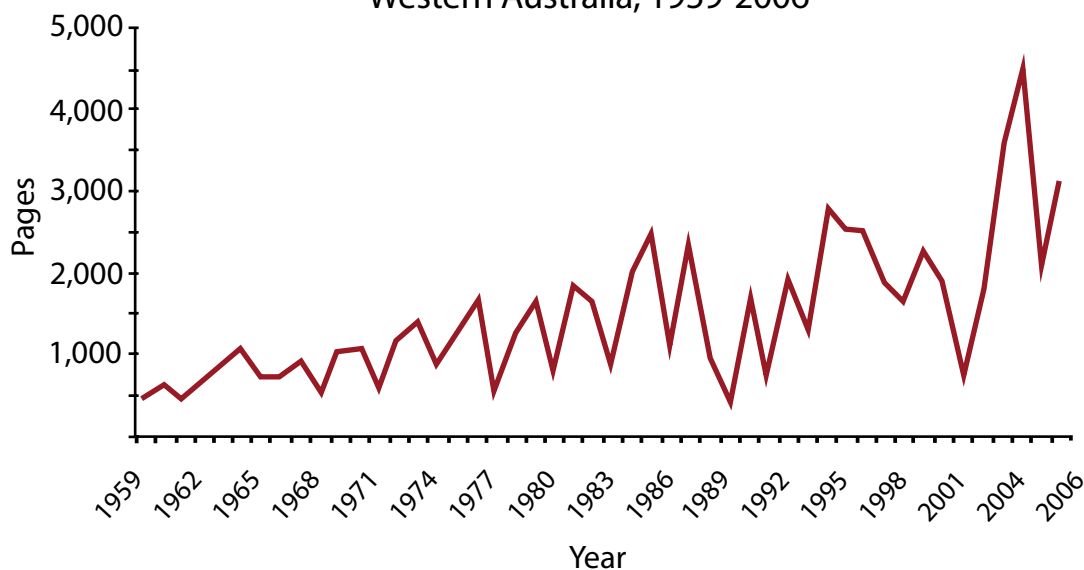
As these figures reveal, a large consequence of a high

regulatory burden is the complexity it adds to business processes. This is particularly pronounced in the resources and agricultural sectors. The Western Australian Farmers Federation has shown that farmers in 2007 had to comply with 30 state Acts and 86 state regulations.¹¹ Compounding this are the many federal Acts and regulations, and local government rules which apply to their industry. Federal legislation and regulation is, if anything, increasing at a more significant pace than its Western Australian equivalent, and Western Australian businesses have to comply with all levels of government.

Of course, these sorts of analyses of regulatory impact necessarily focus on the compliance cost of regulation, which is a small portion of the total cost of regulation. As Productivity Commission Chairman Gary Banks has pointed out, 'regulations not only create paperwork, they can distort decisions about inputs, stifle entrepreneurship and innovation, divert managers from their core business, prolong decision making and reduce flexibility.'¹² It is the economic activities that regulations prevent, rather than the compliance costs of regulation, that constitute the biggest impact of over-regulation.

The design and implementation of regulation in Western Australia is also well-below national best practice. The Business Council of Australia has rated Western Australia's regulation making 'poor'—the only state in the country to receive that distinction—largely to do with the state's lack of formal regulatory impact statement requirements, its relative lack of regulatory review processes, and the absence of an independent regulatory oversight agency. The BCA points out that this means that regulation making in Western Australia is far less transparent, and less consultative than other states.¹³

Figure 8: Pages of legislation passed per year, Western Australia, 1959-2006



Source: IPA

Energy

Western Australia has vast supplies of natural gas and limited supplies of coal. The gas is, in the main, poorly located for the domestic market while the coal is relatively poor quality compared to that in the eastern states.

But nevertheless, the vast majority of the problems facing the Western Australian energy sector have been created by government policy, not any natural circumstances.

Considerable intervention within energy policy has led to a situation where, compared with the eastern states, the supply is high cost, vulnerable to sudden shortages and generally subject to excessive outages. These matters have been exacerbated by the government's ambitious emission reduction policy.

Electricity Supply

The integrated electricity industry has been split into separate generation, transmission distribution and retail businesses.

At the time of reforming the previously integrated Western Power, the government opted to retain the generation assets under a single structure (Verve Energy) though capping the amount of electricity capacity the business could own so as to allow room for new suppliers. The market itself is composed of bilateral contracts with any residual needs/surpluses being available on a spot basis. Though different in structure from the National Energy Market, the outcome is not markedly different since NEM operates largely on a de facto contract basis.

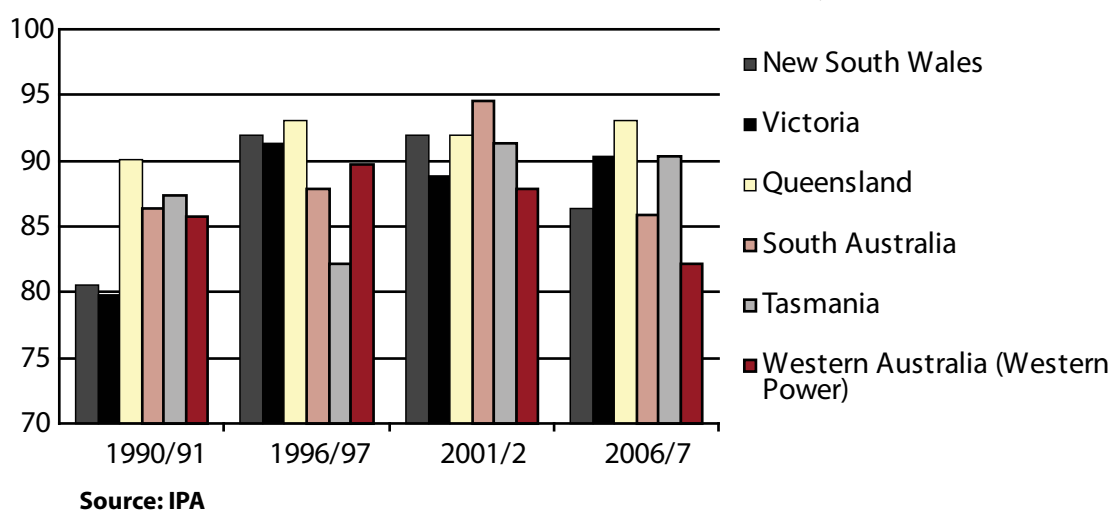
Western Australia's generation system (South West Interconnected System only) has long performed more poorly than that of the eastern states. In terms of the measure of their ability to be ready to supply (the 'Availability Factor') the generation units lagged those of all other state systems in 2006/7, a pattern that is generally observed in earlier years.

Verve has by far the largest market share with over 3000 MW of coal and gas capacity (as well as some wind). New capacity has become available through Babcock and Brown and Transfield owned facilities. Even so, competition is limited and it would have been preferable to break Verve into at least two businesses centred around the major facilities of Muja, Kwinana, Pinjar, Collie, Cockburn and Mungarra. Such a process could still be effected and would offer a better road forward than the very gradual attrition of Verve's monopoly supply that will otherwise take place.

Generation of electricity has no reason to be publically owned. Electricity generators are factories and operate like many other such facilities. Interstate and international experience has demonstrated considerable efficiencies resulting from it being moved into private ownership. Private ownership is better able to act in pursuit of profitable opportunities—to seek alliances with other firms, synergies through diversifications, to sell off aspects of the business that are underperforming and to contract for labour and other inputs without any political oversight.

We would also expect that a privatised Verve—especially one split into rivalrous businesses—would find improved operating arrangements, rather like the elderly Hazelwood plant in Victoria has.

Figure 9: Equivalent availability



The relatively poor performance in generation is also seen in other areas of the supply system.

In transmission, the minutes lost in Western Australia in 2006-07 exceeded those of all other states combined. Outages in local distribution are also high by the standards of the rest of Australia. They were the second highest in 2006-07 and 2005-06 and the highest in 2004-05.

In this case too, privatisation should be the approach. The Victorian and South Australian privately owned networks have shown considerable improvement in service while operating profitably and avoiding 'gold plating' the facilities.

Privatisation does not endanger the performance of any public policy roles, nor does it allow consumer exploitation since the natural monopoly components, as is the case now, would remain regulated.

Gas

Gas policy in Western Australia has been dominated by the Dampier to Bunbury Natural Gas Pipeline (DBNGP). Having been originally built in 1984 with the assistance of government, even when it was later sold it remained the subject of regulatory controversy. Among the difficult outcomes of this has been shortages in capacity especially in 2003 and 2004 due to disputes between the owners and the regulator as to the appropriate pricing of this.

While the issue of capacity pricing has abated somewhat, it remains a potent source of disputation. The ability of the pipeline to expand and its owners to receive an acceptable return from this has depended upon a coalition of users to agree on the terms of the expansion. There is no possibility of the owner acting entrepreneurially to expand capacity, since to do so would leave its pricing strategy in the hands of the regulator. Regulatory arrangements that allow commercial matters to be determined at greater arms length from the regulatory structure should be developed.

More recently, gas issues have been dominated by the Varanus explosion that has cut supply and caused more enduring shortages as a result of inability to contract on terms sought by retailers and other users. Gas in Western Australia has already confronted issues likely to be faced generally as a result of the price here being lower than the international price and the options owners have to sell gas overseas. These matters are likely to bring increased gas prices, and the regulatory approach of requiring gas to be sold domestically at a discount is one that will result in reduced benefits to Australia generally.

Gas reticulation, with the sale of Alinta and subsequent ownership changes, is in private hands and operates highly efficiently.

Western Australia's future depends heavily on the government's policy direction

Despite the dominance of the Commonwealth government over national economic affairs, the states retain policy levers over 'the formation of both physical and human capital, and therefore economic growth and productivity'.¹⁴ The key question going forward is what state policymakers choose to do with these levers, given the economic opportunities and challenges facing Western Australia.

In essence, there are two policy options open to the Western Australian government:

- It can continue on its current course—by largely keeping its hands off the productivity policy levers—and risk the economic and fiscal consequences of a terms of trade 'crunch' when the resources boom fades; or
- It can act now and invoke forward-looking reforms to boost the productive potential of the state economy and so ensure that it continues on a sustained growth path, irrespective of the future outlook for commodity markets.

It is against these choices that the Mannkal Economic Education Foundation and the Institute of Public Affairs, Australia's leading free market think tank, have produced Project Western Australia. The Project illustrates that the pursuit of a unilateral 'productivity-plus' reform agenda by the Western Australian government could yield potentially significant benefits for all residents of the state.

Indeed, the 2008 election comes at a critical juncture in the state's economic history. By taking the 'high road' of a comprehensive economic reform agenda, the next Western Australian government has a unique opportunity to propel the brash, vibrant jewel of the West towards a new plane of economic excellence.

Endnotes

1. Includes estimates for growth for 2008.
2. According to ANZ Economics, Western Australia's terms of trade has increased by about 35 per cent over the past five years. ANZ Bank Economics Group, 2008, 'Western Australia: Boom continues, but some doing it tougher', ANZ States and Territories Economic Update, July.
3. From 1984-85 to 2005-06, Western Australia's average annual labour productivity growth rate was 2 per cent—the highest for all jurisdictions. Over half of this growth was accounted for by capital deepening—or an increase in the capital to labour ratio.
4. Multifactor productivity (or MFP) measures the changes in output per unit of combined inputs.
5. Des Moore, *The Role of Government in Queensland*, Report to Commerce Queensland, May 2006.
6. Gudrun Meyer-Boehm, , 'Economic Output and Productivity Performance of the Australian States', Productivity Commission, Productivity Perspectives Conference, December 2007.
7. Chamber of Commerce and Industry of Western Australia (CCIWA), 2007, 2008-09 Pre Budget Submission to the Western Australia Government, November.
8. The Institute of Public Affairs's State Business Tax Calculator determines the tax burden of a virtual company operating within various Australian states. As that company goes about its business, it will be liable for a range of state business taxes. We simulate that business behaviour and then calculate the tax burden the company would bear were it to operate in a specific Australian state or territory.
9. The validity of this measure is discussed in Chris Berg, *The Growth of Australia's Regulatory State: Ideology, Accountability and the Mega-Regulators*, Institute of Public Affairs, 2008
10. *Regulation and compliance: A Discussion Paper*, Chamber of Commerce and Industry Western Australia, Business Leader Series, November 2006
11. Western Australian Farmers Federation, *Submission to the Productivity Commission Annual Review of Regulatory Burdens On Business—Primary Sector*, June 2007.
12. Gary Banks, 'The Good, the Bad and the Ugly: Economic Perspectives on Regulation in Australia' Address to the Conference of Economists, Business Symposium, Hyatt Hotel, Canberra, 2 October 2003.
13. Business Council of Australia, *A Scorecard of Red Tape Reform*, May 2007.
14. Crossman, Peter, 2000, 'Drivers of Queensland's Economic Growth', Paper presented to Annual Conference of Economists, July.

Chapter 1

Fixing the Crisis: A fair deal for homebuyers in WA

Louise Staley & Alan Moran

Introduction

Current planning policies, more than any other factor, restrict the capacity of first home buyers, and other less advantaged groups, from achieving a goal of home ownership. Current planning orthodoxies inflate urban land prices and discriminate against younger and poorer people seeking to achieve home ownership.

'Australia's housing can be described broadly with the following phrase: owner-occupation of detached dwellings'.¹ Perth and other urbanised parts of Western Australia fit this model. At the last census 80 per cent of Perth dwellings were separate houses and a further 12 per cent are in semi-detached or terraced houses (ABS 2001 Census). Over long periods of time, and in differing economic conditions, Western Australians have continued to express a strong preference for their own home, often in a new suburb, on a relatively large block of land.

Yet for the past thirty years, urban planners and government have pursued a policy of greater density, more flats and townhouses, in higher blocks, closer to the centre of town. Instead of ordinary people acting like these elite urbanists would have it, new home buyers are forced to use up ever increasing amounts of their incomes to buy the kind of house they want. And the cause is inflated land costs produced by a scarcity of urban building land resulting from regulatory measures.

In terms of changing people's preferences (not the job of government in a free society), urban planning has resulted in ever increasing returns to existing property

owners and spiralling land prices. In the process it has even failed to produce the planners' goal of increasing density.

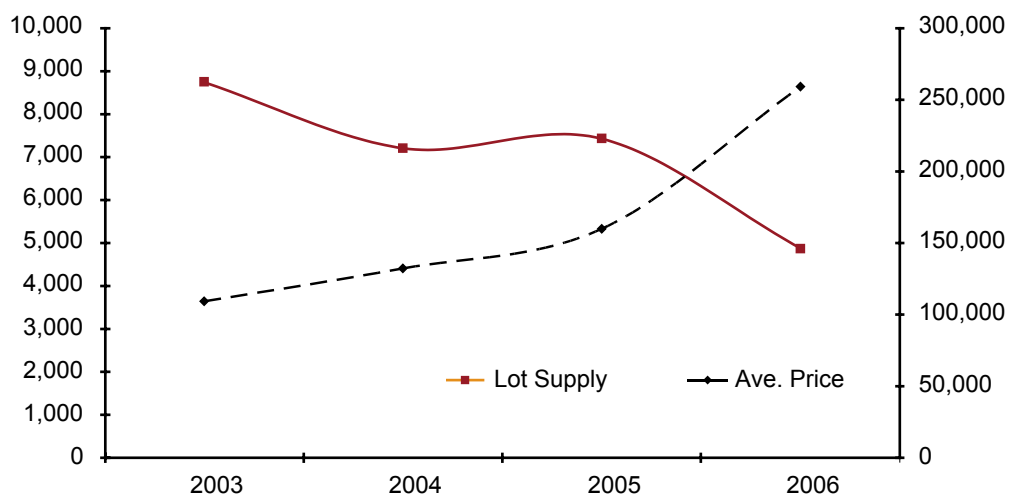
WA has many natural advantages over other Australian states and clearly over many other places in the world. One of those advantages is space. WA has a comparative advantage in land availability. Though the state is mineral rich it can ill afford to undermine its assets by bureaucratic and regulatory measures that raise the price of housing artificially when housing land should be the cheapest in the world and contribute to providing the state a standard of living that is surpassed by few other regions in the world.

Perth housing is too expensive

...and land prices are the cause

Urban land costs in Perth were relatively low until recently. In 1973 Perth land prices were lower than those in Sydney, Brisbane and Melbourne. Since 2000, the median land-to-median house price relativity in Perth has jumped from 46 per cent in the March quarter 2001, to 62 per cent today.² The price of residential lots in Perth has risen 77 per cent in the past year, or \$115,000 to \$265,000³, fast closing on Sydney and exceeding the average in all other Australian metropolitan areas. The president of REIWA, Mr Rob Druitt identified planning and

Figure 1: Perth Lot Supply vs. Price of Land Blocks



Source: 2006 UDIA State of the Land

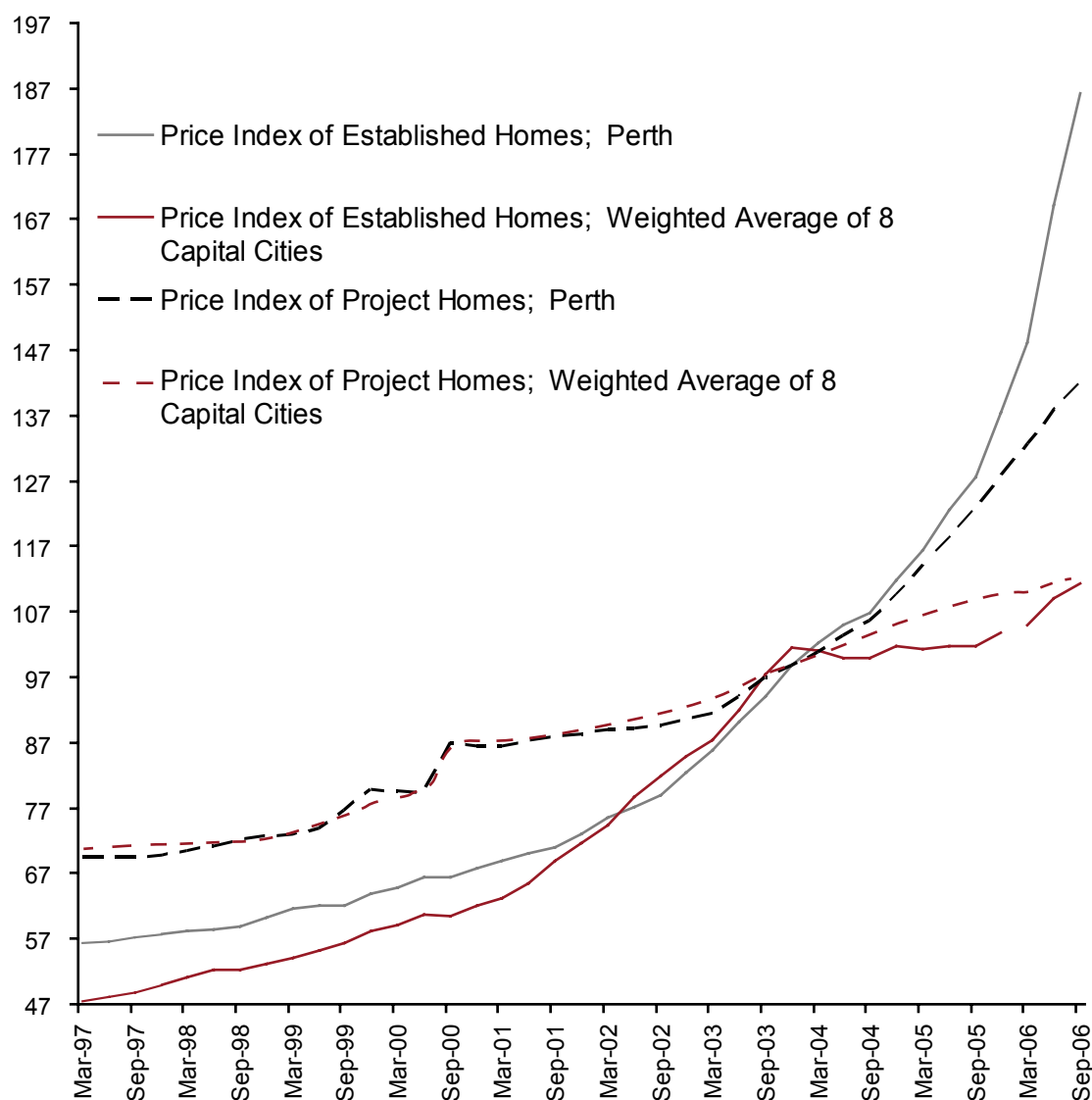
development costs as a major factor in these price rises. 'The ongoing constraints in preparing and releasing land for sale is pushing up prices and making it harder for buyers,' Mr Druitt said.

Figure 1 could be from a standard introductory economics text so clearly does it show the relationship between supply and demand. Production of housing lots in Perth peaked in 2003 at 8,744 and has fallen substantially since to its current level of only 4,870 in 2006. As a result land prices have shot up like a rocket as desperate home buyers bid up the available land to gain a foothold in the market.

Though different authorities have slightly different estimates of house prices, all show the steep rise in Perth prices. According to REIWA, the median house price in WA at the end of September 2006 was \$450,000. This makes WA the most expensive state in Australia, outstripping the ACT by \$18,000 and NSW by \$50,000.⁴ Over the past year the median house price in Perth has increased by 42 per cent to \$480,000, putting Perth on track to overtake Sydney as the most expensive Australian city.

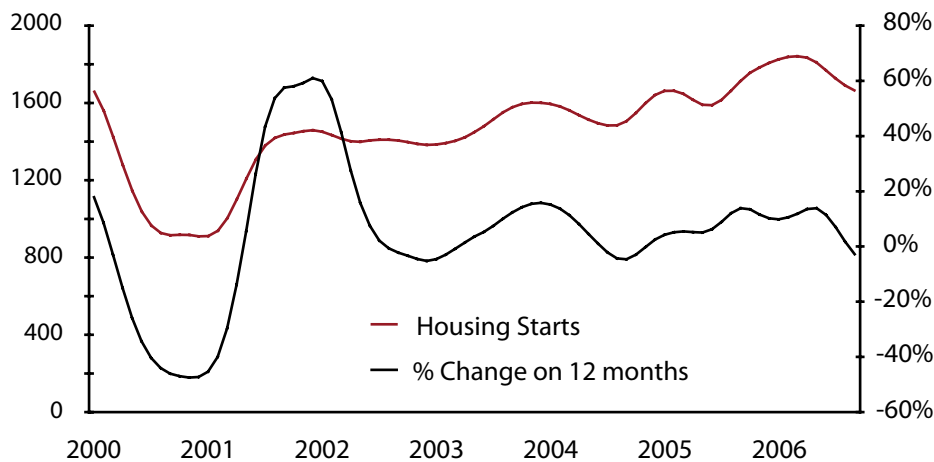
The result of this phenomenal growth in housing prices is affecting first home buyers more than others. Only 1,172 first home buyers were able to purchase a

Figure 2: Perth Housing prices compared to the rest of Australia



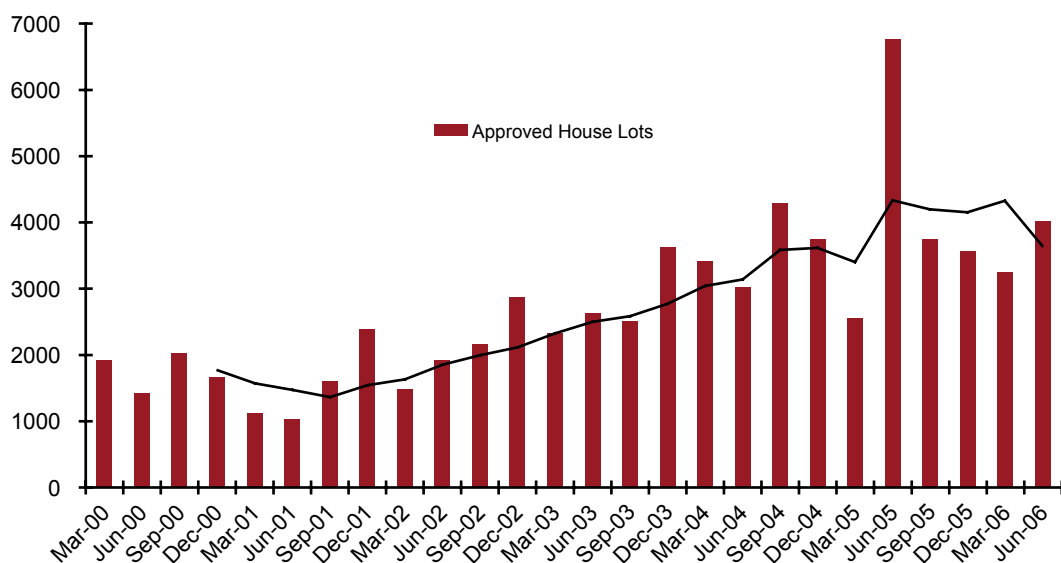
Source ABS 6416.0

Figure 3: New Housing Starts



SourceABS

Figure 4: Perth lot production



Source REIWA

home in September 2006,⁵ continuing a trend of falling numbers of first home buyers being able to enter the market.

In commenting on the trend, the Productivity Commission noted that rising building material costs were not the prime mover in rising house prices and concluded that rising land prices were the culprit.⁶

A common reason put forward for high Perth (and WA generally) house prices is the resources boom causing demand pressures that will dissipate when the boom ends.

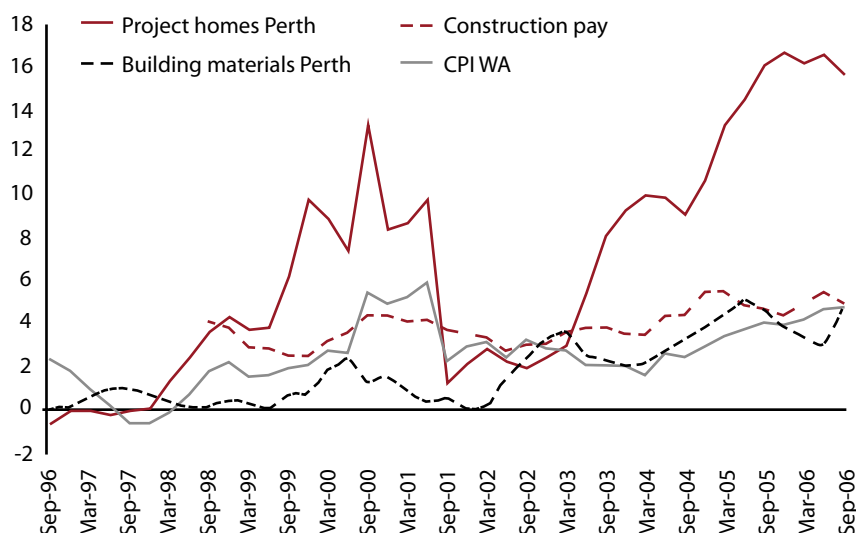
Yet instead of increasing building activity to meet demand, new housing starts in WA have been stagnant for some years and actually fell in the September quarter 2006 (See Figure 3). In terms of land availability, for demand to be the cause of escalating land prices there must be a lack of supply and this is clearly the case. But the failure of a supply response is not attributable to an intrinsic lack of suitable land. There is ample land suitable for housing development surrounding Perth yet, like new housing starts, lot production (land with planning approval) far from increas-

ing currently appears to be trending down (see Figure 4).

Nor can capacity constraints be blamed for the increase in new house costs or the fall in new housing starts. Building costs of new homes are up 15.7 per cent this year; this is higher than construction labour costs only up 5.0 per cent and building materials up 4.8 per cent, both in line with Perth's CPI (up 4.8 per cent) for the same period (See Figure 5). Were capacity constraints the cause of the large increases in project home costs, this would be apparent in the materials and labour prices, yet these are moving in line with the strong growth of the WA economy. Instead, the major difference between input cost prices and the final cost rises (which are, as discussed, dwarfed by the price increases) is most likely due to additional regulatory burdens being added to the new housing sector. Examples include tightening energy efficiency ratings, changes to occupational health and safety and additional government charges.

Furthermore as Table 1 shows, there has been a long-term mismatch in all Australian cities between land price increase and building cost increases. Housing Industry Association data shows that increases in the house component of a house and land package has broadly been in line with inflation over a thirty year period. Even in Perth, where there has been some cost breakout in the past year or so, house costs have increased eight times over 33 years compared to national CPI increases over the same period of 6.3 times. By contrast, the land price has increased by 40 times, a five fold increase over the house price increase. The latest annual land price jump in Perth of 77 per cent compared to 4.8 per cent for the CPI is more extreme than the historical data but it is of the same pattern.

Figure 5: WA building costs and components



Source ABS 6416.0, 6427.0

Table 1: New land and house package costs

Typical new house and land prices by capital city, 1973-2006
(Standardised to a 135sqm house and a 700 sqm block)

		1973	1983	1993	2006	Price increase multiple 1973-2006
Sydney	Land	\$9,100	\$29,400	\$107,100	\$460,600	49.6
	House	\$18,900	\$43,200	\$121,500	\$128,250	5.8
Melbourne	Land	\$6,900	\$15,800	\$49,000	\$107,000	14.5
	House	\$14,000	\$35,000	\$75,000	\$112,000	7.0
Brisbane	Land	\$7,000	\$27,000	\$60,000	\$135,000	18.3
	House	\$16,000	\$37,000	\$70,000	\$112,000	6.0
Perth	Land	\$6,500	\$17,300	\$80,974	\$270,000	40.5
	House	\$12,000	\$28,000	\$60,000	\$109,000	8.1
Adelaide	Land	\$2,000	\$12,000	\$35,000	\$140,000	69.0
	House	\$12,000	\$20,000	\$40,000	\$90,000	6.5
Australia CPI		20.5	61.6	108.9	150.6	6.3

Sources: Sydney: REI of NSW; Melbourne, Brisbane and Adelaide: UDIA; WA: HIA.

Housing stress is growing

The Australian Housing and Urban Research Institute (AHURI) defines housing stress as households with housing costs at least 30 per cent of gross household income. Extreme stress occurs when housing costs consume more than 50 per cent of total income.⁷ Since 2003, median Perth house prices have more than doubled and rents have also increased markedly yet household income has grown far more modestly. As Table 2 shows, on the AHURI measure, Perth first home buyers have moved beyond housing stress in 2003 to being priced out of the market by 2006. Even using REIWA's far more generous estimates of average household income, once council rates and basic maintenance costs are added to the mortgage costs first home buyers are experiencing extreme housing stress. The low mortgage default rates and the persistence of at least a few first home buyers in entering the market demonstrate the overwhelming preference of Australians to own their own home at the expense of other expenditure. Notwithstanding this preference, there comes a point where home ownership is priced outside the realms of possibility for ordinary families and that point in the Perth housing market has been reached.

WA and other governments are in danger of creating a class system—whereas wealthy people can help their own children get a start in the housing market, children of poorer parents become marginalized—unlike in the pre-

planning restraint era, it is increasingly difficult for them to find the means themselves to step onto the real ladder of opportunity. This illustrates how regulatory measures can have unintended bad consequences. Goals that might have some broad support in the abstract, for example to create higher density cities, come up against people's preferences and the forced densification leads to higher prices and less development that infects the whole of the community.

Unaffordability: Perth makes the global top 10

Another measure of housing affordability is the multiple of median housing prices to median income. International research on these multiples has concluded that ratios below 3 are rated as affordable and above 5.1 as severely unaffordable.

Given the explosion of median house prices since 2005 to the current level of \$480,000,⁸ Perth's current housing affordability rating has leapt to 8.7, making Perth the least affordable housing market in Australia and the seventh least affordable market on the planet (see Table 3).

The research institute Demographia notes that all the cities in the least-affordable category have stringent planning and building codes which limit the availability of new housing and increase building costs.

Table 2: House affordability for first home buyers

	2003	2006	2006 (REIWA)
Weekly Mean Income	\$1,116	\$1,322	\$1,748
Weekly Median Income	\$900	\$1,067	
Mean income	\$58,032	\$68,768	\$90,900
Median income	\$46,800	\$55,458	
Mean After Tax	\$45,273	\$52,788	\$66,690
Median After Tax	\$37,410	\$43,471	
Median House Price	\$230,200	\$450,000	\$450,000
First Home Buyer House Price	\$195,670	\$419,100	\$419,100
First Home Buyer Mortgage @ 90%	\$176,103	\$377,190	\$377,190
Monthly Repayments	\$1,383	\$2,961	\$2,961
Annual Mortgage	\$16,591	\$35,536	\$35,536
Mortgage as % of Mean Income	37%	67%	53%
Mortgage as % of Median Income	44%	82%	

Sources: REIWA, ABS 6523.0, National Australia Bank Standard Variable Rate, HIA/CBA

Table 3: Top 10 most unaffordable housing markets

Rank	Housing Market		Median Multiple
1	US	Los Angeles	11.2
2	US	San Diego	10.8
3	US	Honolulu	10.6
4	US	Ventura County (Greater LA)	9.6
5	US	San Francisco	9.3
6	US	Miami	8.8
7	Aus	Perth	8.7
8	Aus	Sydney	8.5
9	US	New York	7.9
10	US	San Jose	7.4

Source: Demographia.com 3rd qtr 2005, Perth IPA calculation 3rd Qtr 2006.

Table 4: Home ownership, Perth¹¹

Age	1996 (per cent)	Change from 1986
15-24	24.6	-5.6
25-44	65.1	-4.4
45-64	80.2	4
65+	73.0	-3.2
All	68.5	-2

Young families are particularly hard hit

Perth's outright home ownership in 1996 was 37 per cent with 31.5 per cent buying their own home. Total owned occupied housing rate of 68.5 per cent is not much different from the 71 per cent of a decade before.⁹ By 2001 the rate had inched back up to 70 per cent home ownership.¹⁰ However these gross statistics mask some significant changes in the age profile of homeowners.

The rates of home ownership by younger people are falling as they are priced out of the market. Yates, in a study of the causes of falling home ownership in this age group, found:

- Less than 25 per cent of these declines could be attributed to the changing socioeconomic composition of households (the endowment effect) in each city.
- **The remaining 75 per cent (the residual effect) is attributable to the changes in housing market constraints, or to changes in any other factors that affect tenure choice (such as changes in preferences).**
- The results obtained suggest that the housing market constraints are the dominant explanation for declines in home ownership rates.
- **Within the 25-44 year old age group under consideration, home ownership rates generally declined most for households with children, yet these are households for whom many of the social benefits attributed to home ownership are perceived to be the most pronounced.**
- Declines in home ownership have been greater in metropolitan regions, where the economic (real capital) gains

from home ownership have been higher and less in non-metropolitan regions where the economic gains have been lower.¹²

While Yates did not enquire into the sources of housing market constraints, her conclusion that constraints were the cause highlights the scope of the impact of creating market conditions that ordinary Western Australian families find it impossible to get a foothold on the ladder of home ownership.

Yates looked forward to the outcome if these younger households are permanently excluded from home ownership, and concluded the rent assistance demands they make on public expenditure are likely to re-emerge when they reach retirement age. Likewise, the support services they may need are likely to differ depending on whether they are, or are not, in their own home. If they live in areas where housing is low cost and, because of this, have less access to employment opportunities, the rent assistance demands they make on public expenditure are likely to continue until they reach retirement age.¹³

We do not necessarily believe that all should own their own home (and there are very good reasons, including the need for a stock of dwellings for those starting out in adult life and for the increasing number of people who are transient in a particular city). What does seem offensive though are policies that result in artificially high prices that make such choices unaffordable. Aside from the utilitarian motive that owning a home provides people with a savings cushion that reduces their future call on others, home ownership gives citizens a property stake in the community, a stake that would almost certainly enhance their feeling of shared community, matters that enhance the lifestyle satisfaction of all.

One of the reasons young families suffer disproportion-

ately from excessive housing costs is that they are often at the stage in the lifecycle where they rely on one income as one parent stays at home to raise young children. Most Australian women return to the workforce once their children are in school however this is often part-time work and occurs when the costs of raising children are at their peak. It is therefore unsurprising that many couples delay having children until they can get settled in their own home. With WA median prices at \$450,000, increasing numbers of couples will either reduce their number of children or remain in the also overheated rental market.

Expensive housing hurts the economy

Edward Glaeser of Harvard University, blames excessive regulation for slowing construction to the point where demand has outstripped supply, fuelling a run-up in home prices. The danger, says Dr. Glaeser, is such places have priced out today's highly skilled 'knowledge workers,' forcing them to live in a more affordable locale where their contribution to the economy might not be as great. 'These are places where only the elite can live,' Dr. Glaeser says.¹⁴

Already this is a common theme in blogs as people trying to buy a house on ordinary incomes find this has become impossible in Perth.¹⁵ Many professionals and trades people vital to the growth and operation of an economy such as teachers, nurses, and chefs can no longer afford to buy housing. Over time these people will migrate to other areas and States in pursuit of the Australian dream but WA will endure chronic labour shortages.

A quarter acre block is a fond memory

The modern city is more dispersed because it can be. Jobs are less concentrated, shopping centres more diversified, the number of trips to the centre has fallen from over 50 per cent to 10 per cent. Planners must adapt to the city not try to force people to live in ways they do not prefer. People want to live in their own space and Perth and WA generally is ideally positioned to allow this

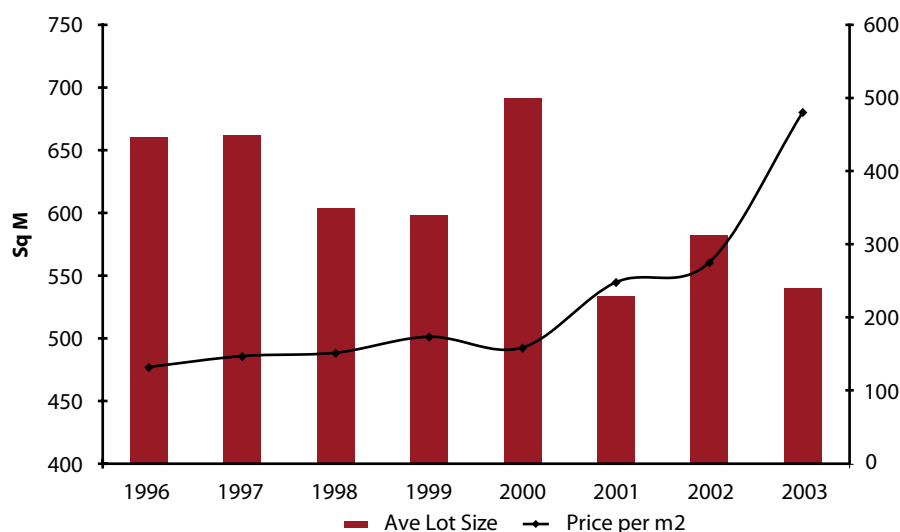
There are common misconceptions that Perth's low population density is both exceptional for cities of her size and an unwanted blight. Yet compared to some European cities of similar size such as Lyons, Marseilles and Bordeaux, Perth is not all that dispersed. It is comparable with Boston, Baltimore and virtually every other 800,000 to 1.5 million sized city in the US and Canada. WA has a comparative advantage in land availability. Though the state is mineral rich it can ill afford to undermine its assets by bureaucratic and ill considered political moves that raise the price of housing artificially when housing land should be the cheapest in the world and contribute to making the state a standard of living that is surpassed by few other jurisdictions anywhere in the world.

Perth's average block sizes are declining from around 800 square metres (0.2 of an acre) 20 years ago, and comparable in size to the suburban areas of many US cities, to around 550 square metres today.¹⁶

The reduction in house block size is unlikely to be driven by consumer preference. New house sizes have been increasing as block size shrinks, leading to the phenomena disparagingly called McMansions. Instead, the reduction in

house block size is much more likely related to the exorbitant cost of development land. Families buying these new house and land packages just can't afford the size blocks their parents did and the continuing preference for more housing space per person is leading to larger houses being placed on smaller blocks. Recent comment from Perth developers has noted house sizes are now falling as people decide they can live without a separate dining room or the fourth bedroom. Again, this is unlikely to be an expression of unbounded consumer preference, instead home

Figure 6: Perth Lot Sizes and Price¹



builders having already shrunk their block size by 30 per cent as land prices have exploded, are now lowering their expectations of what kind of house they can build and still be able to afford it.

As a recent UK report into planning notes densification comes at a cost, the cost of frustrating the clear preference of most people to live in detached housing rather than flats or other housing options. Furthermore, 'densification can also make the best use of available land, but there are limits to how far this can go. Although in some urban areas it is possible to build at very high densities, this may be less acceptable elsewhere. The savings of land which come from building at 50, rather than 40 dwellings per hectare are smaller than those from building at 30 rather than 20 per hectare.'¹⁸

In WA, like the rest of Australia, people have over long periods of time expressed a clear preference for lower density living. The Australian lifestyle has also been a key draw card for the large waves of immigration by people who have achieved their dreams by building houses that reflect their heritage in suburbs in all major cities. There are in fact some 1.3 million Brits resident in Australia and according to research by the Institute for Policy Research¹⁹ a major reason for this outflow is the exorbitant price of houses in the UK. This attraction is likely to be severely diminished unless policies are changed.

The costs of new housing

REIWA estimate the current price in Perth for an average block of 550 sq m at \$265,000.²⁰ There are two major causes of housing development land costing so much more than the price of bare land. The first is that development costs add significantly to the undeveloped land price. Some of these costs, such as direct utilities connections and developer margin are properly borne by the buyers of new housing, the utilities add about \$36,520 (see Table 5) with about \$40,500 in design, building road preparations and margin. However there are a plethora of other charges such as offsets for open space, school provision, public transport provision etc. which are lumped on residential developers and therefore passed onto the buyer; these add a further \$32,000 to each house block. On average, a total \$109,020 per block is charged in developer costs and government charges.

However, in Perth, the largest

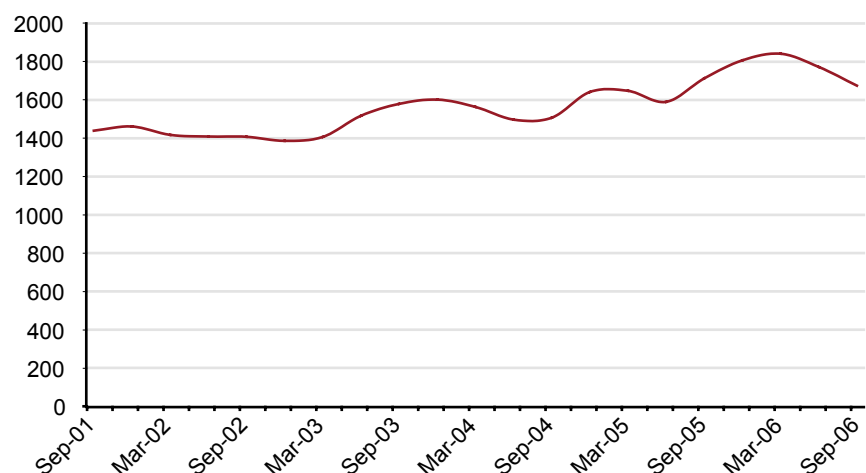
impost on buyers of house and land packages is the undeveloped cost of the land of \$156,000. At \$156,000 for 550 sq m development land is being sold for \$2,836,000 per hectare. This is clearly absurd for a resource that is naturally abundant but restricted in supply by planning laws. A more reasonable figure for undeveloped land would be \$60,000 per hectare, \$3,300 per block which would still value the land at more than five times the most expensive agricultural land and provide handsome returns to farmers selling up. At \$60,000 per hectare this provides a substantial profit to the selling landholder if it is compared to the average price of \$2,000 per hectare estimated by ABARE for agricultural land in the high rainfall wheat sheep areas in the south west of Western Australia.

In a recent enquiry into first home ownership the Productivity Commission noted the slow supply of housing will cause large price rises in land in the presence of increased demand.²¹ It is likely therefore that some of the current spike in price will have been caused by a short-term supply demand mismatch as a result of the booming WA economy. However, as Table 1 shows, housing prices across Australia and including Perth, have shown marked long run increases above inflation. Therefore, even after making allowance for current upsurge in price inflation (as land holders with development approval are able to obtain extraordinary returns), underlying undeveloped housing land is massively overpriced because of long-run government rationing through the planning process.

Moreover, restraints on land availability are suppressing the normal market reaction by not allowing increased stock to be made available to respond to the soaring price rise caused by lack of supply.

Building approvals are shown in Figure 7 below. Remarkably, given the booming economy of Perth, building approvals have only trended upwards marginally from 1436

Figure 7: WA Building Approvals



Source: ABS

in September 2001 to 1675 in September 2006 (16.7 per cent). The cost data presented above strongly suggests that labour and material shortages are not the cause of the relatively sluggish increases in building approvals. Instead, builders have insufficient land on which to seek approval.

Land preparation costs, like house building costs have been kept competitively priced by competitive forces. The following is typical of the components of costs necessary to have land readied for building.

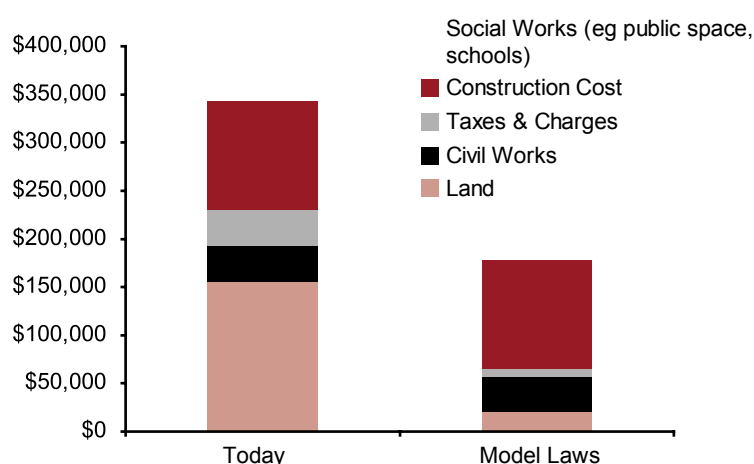
If land was a reasonable price and governments did not require home buyers to pay for all the additional costs (such as provision of open space, regional roads, schools etc.) that previous generations of home buyers received as part of general government provision financed through the general tax base, the total cost of a new home would drop from \$379,000²² to \$195,500. The difference of over \$180,000 costs the home buyer an additional \$1,546 per month at current interest rates and brings the total mortgage (assuming 90 per cent borrowed) to \$666 a week. The most recent ABS household income numbers show WA has a median household income of \$889 per week.²³ This implies a new home owner with an average income spends 75 per cent of their household income on housing, in effect proving the impossibility of ordinary income earners to buy a house and land package in Perth. If the raft of government policies penalising home owners were removed the proportion of income paid by average income earners would fall to 34 per cent, still above what the Australian Government's research institute thinks is appropriate, but not an impossible dream for ordinary families.

Table 5: Land allotment costing

Nature of cost	Cost per allotment
Civil works construction costs including:	\$30,415
Establishment & disestablishment	
Sedimentation control works	
Allotment filling	
Road formation works	
Roads, pavements & gutters	
Hot-mix seal coat	
Stormwater drainage works	
Sewer reticulation	
Water reticulation	
Common service trenching	
ETSA/Telstra conduits materials	
Survey certificate	
CITB levy	
Sewer	\$2,495
Water Supply	\$500
Survey & Engineering	\$3,000
Planning, registration, title fees	\$110
Total	\$36,520

Source: Figures extracted from a 70 Allotment Stage for a development within the City of Onkaparinga with sales starting in mid 2006.

Figure 8: Perth new housing under different regulatory regimes



Perth and Houston: sister cities

Perth is sister city to Houston, the largest city in Texas. Texas and Western Australia have much in common in terms of their mineral and petroleum wealth and frontier nature. Texas has a larger and faster growing population than WA and forty times the population density of WA. Similarly, the greater Houston area has over three times the population of greater Perth. However the cities share similar population density and broadly similar home ownership levels.

As Table 6 shows, even on 2005 data (the latest available for all measures) Perth's median housing price is over 2½ times that of Houston. All else being equal, housing prices would be expected to be higher in Houston: the city has higher incomes and the US has lower interest rates, making mortgages cheaper.

On this basis Houston ranks as one of the more affordable housing markets in the developed world.²⁴ By contrast, using 2005 data Perth has a ratio of 6.0, placing this

city in the severely unaffordable category. (As discussed above, Perth's ratio is now 8.7). Similarly, using the housing costs as a percentage of household income measure vividly demonstrates the affordability of Houston housing at only 15% going to mortgage costs with Perth homebuyers hefting an average 45 per cent of their income to pay the mortgage.

Building costs, housing size and other demand factors are not the cause of Perth housing being so much more expensive than Houston,²⁵ instead the major difference is planning controls, with Houston having no city development boundary and a pro-development city administration. According to the Wall Street Journal Houston 'has some of the least-restrictive land-use and construction rules in the nation. Those factors help supply to keep pace with demand and keep prices within reach of a broad range of potential buyers.'²⁶

If Perth had a housing multiple the same as her sister city Houston, median house prices would decline to \$181,700, a fall of 62 per cent and housing costs would fall to a very manageable 25 per cent of median household in-

Table 6 Comparison of Perth and Houston

	Texas	WA
State population (2000)	22,471,549	1,978,079
Households ('000)	7,393	695
State GDP (bn)	\$989.4	\$65.2
GDP per capita	\$44,031	\$32,491
Area (sq km)	696,241	2,527,633
Population density per sq km	32.30	0.8
	Houston	Perth
Population 2005	3.8m	1.2m
Land area, sq km	3,355	964
Persons per sq km	1,132	1,244
Median value occupied housing 2005	\$123,400	\$331,100
Median household income 2005	\$46,705	\$55,458
Home ownership 2005	62.9%	68.5%
Median monthly housing costs	\$601	\$2,080
Mortgage costs as per cent household income	15%	45%
2005 house price as a multiple of income	2.6	6.0

Source: ABS, US Census Bureau, all values in local currency

come allowing more first home buyers, young families and other average income households to purchase their own home.

Tellingly, whether the optimal house and land package is calculated from the ground up so to speak of actual costs or implied by applying a reasonable multiple to income to determine a fair price, the result is quite similar: \$195,500 from a cost basis and \$181,700 using a multiple. Either methodology results in a far more affordable price than the current \$379,000 for house and land packages or \$480,000 for an established house.

Sprawl is not a dirty word

Within current planning discourses a number of orthodoxies reign. Together these orthodoxies seek to build a comprehensive case in favour of urban infill and increased density. However, the majority of urban Western Australians, like their counterparts in other Australian cities, choose to live in suburbia. Moreover, for many people, the great Australian dream is still to build their own home, to their own specifications, in a new suburb, surrounded by families doing the same thing.

Never mind rising sea levels and galloping desertification. Never mind that suburbia guzzles land, wastes energy, pollutes air, generates traffic, disperses community, makes services expensive and public transport impossible. Or that in 20 years, when the dominant household is the single person, all these effects will intensify.²⁷

In the quote above Elizabeth Farrelly of the *Sydney Morning Herald* manages to compress into a short diatribe many of the elitist criticisms of suburbia. All of which are either totally without foundation or not applicable to low density cities such as those found in Australia. As for suburbia guzzling land, presumably from that other evil water waster, agriculture, it is not as if land is scarce in Australia. Similarly there is a strong relationship between urban sprawl and pollution—but not the one the new urbanists suggest. Air pollution tends to increase with population density.²⁸

Infrastructure utilisation orthodoxy

This orthodoxy argues increasing density in established areas better uses the existing infrastructure—roads, sewerage, public transport etc. However, this line of thinking, often pushed by urban planners and ministries of planning, is frequently stymied by the power of existing homeowners in established suburbs who will not accept increased density in their area, arguing it will destroy the character of the area. The result is the infill plans of the planners are not fulfilled and housing pressures remain.

However there is a false assumption and a huge degree of paternalism underlying the infrastructure utilisation orthodoxy. The false assumption is that increasing density in the centre will result in better utilisation of services and utilities. In some cases such as inner city roads these are at capacity already, in others such as sewers, inner city municipalities have persistently skimped on maintenance and upgrades because as their population densities declined it has been cost effective to let those services slowly decay. In some cases the costs of upgrading them for higher density is well beyond the costs of new sewers on the urban fringe. As an example of this, high speed telecommunications needs optic fibre to the home, easily and cheaply added to new developments but very expensively to existing housing.

The paternalism arises in a number of ways but the major one is public transport. Planners believe, for a variety of reasons that more people should take public transport, particularly to commute to work in the CBD. However, only 15 per cent of total employment is in the central business districts²⁹ and this figure continues to fall. Public transport systems designed around getting people to work no longer fit the patterns of work with more people working across town from where they live and the massive increase in part-time employment changing the traditional morning and evening peak hours to more frequent transport throughout a longer daily period. As a result in 2001 only 8.1 per cent of work trips in Perth were by public transport and public transport's market share is declining.³⁰

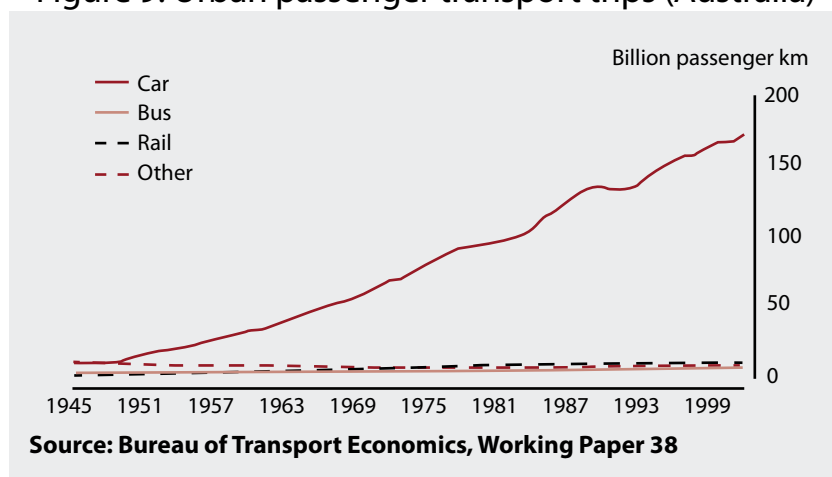
Even assuming the infrastructure utilisation theory is right, which is not what the data shows, however for the sake of the argument assume infill is cheaper to provide services to than greenfields development. The clear response in that circumstance is to fully and properly cost the unavoidable infrastructure costs (not the planners wish list costs) and add the necessary costs to the development. Open and transparent costs allow potential buyers to effectively weigh up whether they are prepared to pay those costs.

Environmental orthodoxy

This orthodoxy argues households with large houses on the periphery use more energy than compact houses near the centre. More car use causes higher greenhouse gases. This is a bad thing. Solutions include infilling the existing areas and if necessary only build new suburbs out along heavy rail, enforce stringent environmental standards on new housing and require developers (and therefore new home buyers) to pay hefty amounts for open space preservation and environmental works.

Again this is dictating the values of a small urban group on the vast majority of people who want their own home,

Figure 9: Urban passenger transport trips (Australia)



ferred mode of transport except in extremely dense cities such as Hong Kong and Tokyo. Perth can never emulate the high rise density of Hong Kong and therefore can never match the densities needed to run a mass transit system that people actually prefer to use. It is unrealistic for urban planners to attempt to instil an alien mass transit ethic on fundamentally suburban communities, the result will be higher public transport subsidies not higher usage.

Mismatch orthodoxy

As household size declines housing size should also decline and people who do not adjust their living space in light of the number of people in the household are underutilising the housing stock.³¹

Figure 10: Annual public transport journeys



Household size has been declining for over 40 years yet until recently house size has been growing as all household sizes exercise their preference for larger per person living spaces. The notion that 'empty nesters', child free couples and singles somehow all prefer to live in new high rise inner urban apartment blocks has not been borne out by the evidence.³² The occupants of the new apartment blocks are overwhelmingly young people, often students and recent graduates moving out of their childhood home. Relatively few families with children or people over forty are populating the revitalised inner city.

on its own block, with a garden and a three car garage. No amount of money poured into public transport will make most people use it. Even if free it is not convenient for people who want to go across town, who have the weekly food shopping, who have babies and young children with them.

In 1995 private road vehicles represented about 93 per cent of city passenger transport. Urban public transport is a minor component of city transport and has been for many years. As Figure 10 shows, the average number of journeys per year by Perth residents is about 30, or 15 round trips, and has been around that level since 1991. That's only slightly more than one return journey a month for the average person.

Over the past thirty years the car has proven the pre-

The continuing decline in the size of households in Western Australia is affecting housing demand but not in the way those who think there is an appropriate house size per person would advocate. Lone person households increased from 24.9 per cent of all households in June 1999 to 26.8 per cent in June 2004. In comparison, in the 1991 Census, 19.6 per cent of Western Australian households consisted of only one person. Between 1999 and 2004, the total number of households in the state increased from 707,574 to 772,062, with declining household size accounting for 15,109 households or 23.4 per cent of the increase.³³ Perth residents are breaking into smaller family units but the trend to larger houses is outweighing the lower numbers of people in each one.

The Kitchen sink orthodoxies

Suburban sprawl encourages car use at the expense of walking thereby reducing the exercise of residents and adding to the obesity epidemic. Home gardens in suburbia use too much water which is in short supply due to the drought/climate change. Sprawl uses up productive farmland which will lead to an inability of the cities to support themselves due to lack of food supply. Suburbia is a cultural wasteland characterised by isolated and compartmentalised households. By contrast, inner urban areas are awash with cultural vibrancy and dense networks leading to high stocks of social capital.

This list is almost endless. It would no doubt be possible to create a game where the compère lists a random social, environmental or other public policy problem and contestants come up with how it is caused by urban sprawl.

Each of these kitchen sink assertions need to be empirically tested, for example recent water usage figures in Melbourne show some of the most established inner suburbs are much higher water users than gardens at the periphery. Similarly recent US research found higher stocks of social interaction and social capital in outer suburban areas than the inner city,³⁴ putting paid to the assertion the suburbs are full of desperate housewives living lives of misery and despair.

Conclusion

That Perth's housing market is overheated is beyond doubt. But for government to throw up its collective hands and assume nothing can be done until the mining boom ends is both an abrogation of responsibility and the wrong conclusion to draw from the data. The overwhelming reason housing is too expensive for first home buyers and ordinary middle income families is because land is massively overpriced. This can be fixed relatively easily; by easing the planning controls and other cost imposts that restrict the supply of land for housing.

Despite thirty years of a planning orthodoxy designed to increase density, homebuyers have consistently frustrated the designs of the urban elite to force them into high rise apartments. Overwhelmingly families, particularly as they begin to have children, want to live in low density, residential neighbourhoods. Market forces if left to their own devices will ensure these are serviced by convenient shopping centres. The great Australian dream remains a detached house. When denied this choice or government regulations overprice it, people opt for a reduced block size. Now, an ever growing number are not able to buy at all and remain in the rental market.

It is not the right of government to dictate to the people how they should live. It is their duty to remove blockages to people's pursuit of their own versions of happiness not to create barriers to this. And while a case can be made for governments to dictate some things where there are externalities present (e.g. infrastructure costs not born by individuals), this is not an important factor in new developments in Western Australia. Indeed the costs of the infrastructure is greater in the older inner city areas because it needs to be replaced and this involves far greater expenditure than in green field sites where more modern piping and other products can be easily incorporated.

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Chapter 2

Moving in the Right Direction: Transport Reform in Western Australia

Richard Allsop

Introduction

Perth is a prosperous city which provides its citizens with an enviable lifestyle.

However, like all cities, the provision of efficient transport infrastructure and services is fundamental to both Perth's (and Western Australia's) economic prosperity and quality of life.

Perth's population is rapidly approaching 1.5 million (approximately 74 per cent of the total WA population) and is projected to reach 2 million by 2030.

Population growth is a clear indicator of prosperity, but as population and the economy grow there are obviously also challenges presented. One of these is the need to maintain high rates of mobility for both people and goods. Already there are estimates that the aggregate cost of congestion in Perth will double from \$0.9 billion in 2005 to \$2.1 billion in 2020.

The focus of 'Moving in the right direction: transport reform in Western Australia' is the need to provide transport infrastructure and services that enables individuals to move around the city of Perth and minimise the costs of congestion.

Three public policy issues stand out as the ones within the transport sphere that demand the most urgent attention.

Western Australian taxpayers have invested heavily in Perth's rail network in the past twenty years and it is essential that the maximum possible return on that investment is delivered. This means providing a market-driven rail system that provides a service that customers want to use. Enticing people to rail reduces road congestion.

Western Australian road users have often had to wait longer than they needed to for much needed road infrastructure improvements. Bickering between the state and Commonwealth about levels of road funding has often produced unnecessary delay. However, the refusal by the state government to give proper consideration to private sector funding of road projects has denied motorists an extra option for getting needed works done.

Perth's opportunity to gain the status of a truly 'leading city' is hindered by a number of factors including housing affordability, shop trading hours, the availability of a full range of hospitality and entertainment venues and, in the transport area, by the fact that Perth has fewer taxis per head than other Australian capitals.

Note: There are many issues involving freight transport that are also crucial for Western Australia. These issues include third party access to private rail lines in the Pilbara, the future of the grain lines, the operation of the east-west rail corridor, the development of port capacity and road links between ports and intermodal facilities. Rather than make this chapter too broad, these issues will be considered as part of the on-going work of both the Mannkal Foundation and the Institute of Public Affairs.

Metropolitan rail reform

History and background

The railways came to Perth later than they came to the eastern states. While the first railways operated in Melbourne and Sydney in the 1850s, Perth's first railway (Fremantle-Perth-Guilford) opened on 1 March, 1881.

A by-product of this later development was that, whereas in other states rail tended to start as a private sector operation, in Perth services have always been provided by the state government, initially by the Department of Works and Railways and from 1890 by Western Australian Government Railways (Westrail from 1975).¹

While there were never private companies running trains in Perth there were private trams. Indeed of the four Western Australian locations that had tram systems—Perth, Fremantle, Kalgoorlie and Leonora—all, except Fremantle, were originally private sector initiatives.²

In Perth, an Act of Parliament authorising the building of tram lines was passed by the Western Australian Parliament in 1885. However the first line did not begin operating until 1899 when a group of London investors backed Perth Electric Tramways Ltd and the company was able to build and commence operations on a line along Hay Street from East Perth to Thomas Street, West Perth. Tram services were later extended to a number of other suburbs by Perth Electric and other companies.

The WA government decided that it wanted control of the network, nationalising the Perth Electric network in 1912 and all others by 1914. The government never matched the initial private investment of the private sector and after years of deterioration the last tram line in Perth closed in 1958.

The Kalgoorlie Electric Tramways Limited which opened in 1902 had close links with the Perth Electric, but unlike Perth, the Kalgoorlie operation was to remain privately owned for most of its life. It was taken over in 1949 by the Eastern



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Passengers waiting to board tram car No. 35 on route 30 to Claremont. c.1930

Goldfields Transport Board, which promptly closed the system in 1952.

Despite its slightly different beginnings the history of the Perth suburban rail network followed a similar pattern to that of most other Australian capital cities. From strong patronage in the early-mid twentieth century there was gradual decline which in the case of Perth reached its symbolic low with the closure of the Perth-Fremantle line from 1979 to 1983.

However, from the 1980s onwards Perth has followed a different path. While Sydney, Brisbane and Adelaide have essentially muddled along with long-standing policy settings essentially intact, Perth is, with Melbourne, the only city to have undertaken significant change.

Where in Melbourne that involved radical change to the ownership structure, in Perth it has involved significant taxpayer-funded capital investment.

First, there was the electrification of the entire system announced in 1988 and coming on-line in 1991. This complete refurbishment of the system means that with the oldest infrastructure and rolling stock dating from the early 1990s Perth has the most modern system of any Australian capital city.

In the same period the government built the northern suburbs line (announced 1989, completed 1992) that provided a rail service as far as Joondalup.

The combined impact of the electrification and the building of the northern line was that the number of annual boardings went from under 10 million in 1990-91 to over 20 million by 1993-94.

The next substantial injection of capital into the rail system is the New MetroRail Project which is currently nearing completion. The scope of the project is:



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Train travelling on the Joondalup Line (now Clarkson Line)

- Extension of the northern suburbs from Joondalup to Clarkson
- Extensive works between Perth and Kenwick
- A new spur line from Kenwick to Thornlie
- A new southern line from Perth to Mandurah, including two new underground CBD stations.
- The purchase of 93 new rail cars.

The cost of this suite of measures is significant—\$1.618 billion.

There was a vigorous public debate about the relative merits of this expenditure versus other possible transport solutions. (There will be some discussion of the detail below.)

Since 1 July 2003, responsibility for operating all of Perth's public transport has been with the Public Transport Authority (PTA). As well as operations this agency is responsible for the planning and delivery of new infrastructure projects.

The PTA has been a comparatively well run public sector agency, however, as many other jurisdictions have

shown, it is hard to consistently maintain high standards in the public sector. Only the discipline of the profit motive can sustain the long-term customer focus that transport systems need.

Perth now has a unique opportunity—to have its modern rail infrastructure and rolling stock operated with the best private sector management.

That combination would almost certainly gain Perth the number one position in metropolitan rail in Australia.

Why privatisation?

For many people it is taken for granted that the delivery of public transport services is something that is done by government. And yet in many places around the world it is being recognised that involving the private sector can deliver many benefits.

Indeed, in one sense, privatisation has already come to Perth's public transport system. The integrated network of bus services under the Transperth banner are provided by three separate private bus companies under ten separate contracts and in terms of passenger growth the contracted out bus service has been outperforming rail. The ferry service across the Swan River is also provided by a contract with a private company. There are also numerous contracts in place for the provision of ancillary services such as facilities management and cleaning.

Privatising the rail network is just a logical extension of the current model. However, in another regard, it is a radical policy. Fixed rail tends to be the flagship part of any public transport network and so its transfer to the private sector would indicate a dramatic shift in the economic management of public transport.

It is often perceived that privatisations are only undertaken to deal with a crisis in a public sector entity. That is not the case with the rail services provided by Transperth.

According to a World Bank study, from the 1980s onwards, Westrail 'was probably the most efficient of the government railways in Australia'. This is probably still the case, although the level of competition for the title is far from strong.

There are a number of areas of concern that privatisation would address:

1) Increase patronage

It is striking how in the past two years public transport patronage in Melbourne has grown much faster than in any other Australian city. Given the huge investment in Perth's rail system and the booming nature of the city the question has to be asked—why has the patronage growth in Perth failed to match that of Melbourne? It is particularly relevant given that fares in Perth are probably the cheapest in the country.

The opening of the new southern line and associated CBD works will deliver a significant one-off increase to patronage. The challenge is to ensure that once the existing excitement wears off the on-going service provided continues to maintain existing customers and attracts new users to the system.

2) Improve service delivery

With the massive capital investment into its modern fleet and infrastructure, the on-time performance of Perth's public transport system should be clearly the best in Australia and yet in 2005-06 only 87% of trains arrived within three minutes of schedule. However, to be fair to the PTA, three minutes is a more rigorous standard than most Australian systems apply and in recent years the New MetroRail project has contributed to some disruption.

3) Instill financial discipline

In the three years from 2002-03 to 2005-06, total recurrent expenditure on the Perth system increased from \$291.6 million to \$514.2 million. While there was some legitimate component of gearing up for the cost of New MetroRail, it is still a cause for concern.

The fact that for most journeys Perth's public transport is cheaper for customers than that of the other major capitals means that taxpayers are contributing a greater share of recurrent funding to the Perth system, as well as contributing the massive amounts of capital that have gone into the rail network in recent years.

4) Avoid planning panaceas

There is a real concern that, rather than focusing on rail as a customer-driven service, the WA government has been used it as a vehicle for planning and land use policies.

Land use policy in Western Australia was discussed in *Fixing the crisis: A fair deal for homebuyers*, the IPA's submission to the Inquiry into Housing in Western Australia. The submission found that:

Over long periods of time, and in differing economic conditions, Western Australians have continued to express a strong preference for their own home, often in a new suburb, on a relatively large block of land.

Further, despite two decades of high investment in public transport, Perth still has one of the world's highest levels of car ownership and for most people for most journeys the private car will continue to dominate.

Where rail can gain market share is in trips to the CBD and surrounds for both employment and major crowd generating events.

The key question for a customer focussed railway is how to win converts from cars.

When the northern line was built in the early 1990s common sense applied and large car parks were built at stations in a bid to attract previous non-users to give rail a try.

In the intervening years between then and the planning of the southern line there had been a philosophic shift away from park and ride towards feeder buses.

Convincing motorists to forsake their car to give the train a go will be hard enough without effectively doubling the size of the challenge.

The new southern line will provide highly competitive journey times, however, there is no doubt these will be diluted for people who also use buses, no matter how well coordinated timetables are and how efficient are the interchanges.

The issue is not to stop people using their cars all together but to shift them out of their cars for the long distance journey to work that contributes to congestion. Rail provides the best way not to have to widen the Mitchell and Kwinana Freeways but discouraging people from driving to their local railway station does little to address any congestion problem.

A public sector agency can happily go along with the latest planning fad. A private rail operator with a strong incentive to grow patronage will want to ensure that potential customers are not being driven away by being forced to walk from their homes to a bus stop on a 40 degree summer's or a wet winter's day.

It will always be hard to assess how many customers will have been driven away by the planning fad but hopefully introducing pragmatic private operators will stop future attempts at social engineering.

5) Improved industrial relations

One of the key benefits of most privatisations is an improved industrial relations environment. In the case of rail it would mean direct negotiation between employer and employees and mean that rail workers do not have to balance their potential productivity-based pay rises off against public sector salary policies applying to nurses, teachers, police etc.

Summary

Perth is booming and needs more than ever to have a fully modernised transport network. A private operator of Perth's metropolitan rail network would ensure that the benefits that the massive capital injections into the network are locked in and further improved upon. The addition of a private operator will also mean there is the potential to be able to add capital themselves to future investments.

Privatisation should deliver better value for taxpayers and improved services for rail users.

Precedents for privatisation

Obviously, in considering whether to head down the privatisation path it is important to consider what the outcomes have been of other similar privatisations.

The three most relevant examples are the two WA transport privatisations of the past 15 years—Perth's metropolitan buses and Westrail Freight—and the example of Melbourne which in 1999 became the first Australian city to privatise rail operations when it franchised its trains and trams.

Despite considerable misinformation, all three demonstrate that positive outcomes can be achieved by increasing private sector involvement.

WA Rail Freight

Westrail Freight was sold in 2000 as a vertically integrated intrastate rail freight business. The value of the transaction was \$585 million.

The purchaser was the Australian Railroad Group (ARG)—50:50 joint venture between Wesfarmers and Genesee & Wyoming. In 2006, ARG's ownership changed with the below rail business (WestNet Rail) being sold to Babcock & Brown and the above rail operation to Queensland Rail.

The current WA government has consistently criticised the privatisation. Minister for Planning and Infrastructure, Alannah MacTiernan, said in 2003:

The Westrail privatisation was a real doozey. It will go down in history as one of the great debacles of privatisation.³

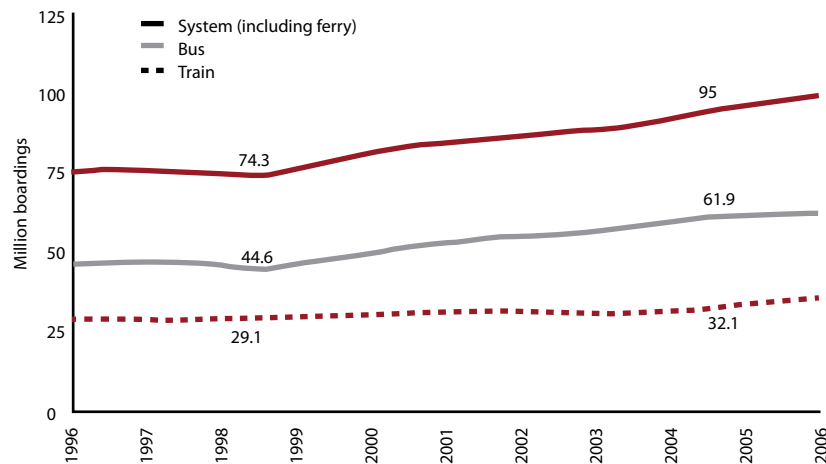
Her views are directly contradicted by the most authoritative study of the outcomes of the Westrail Freight privatisation. Undertaken by the World Bank in 2005, the study found that there had been increases in earnings since privatisation 'in direct contrast to pre-privatisation WestRail whose margins and operating statistics appeared to be in decline at the time of sale'. It also won interstate contracts. Overall, the World Bank concluded that the privatisation should be 'considered successful'.⁴

Perth's metropolitan buses

The first motor omnibus operated in Perth in 1903, running on a route from Victoria Park to the city (Barrack Street). It was the forerunner of a number of private bus companies that developed routes and operated services as the Perth suburbs expanded.

These companies competed for passengers on various routes, the most intensive rivalry being on the Stirling Highway route between Perth and Fremantle.

Figure 1: WA Public Transport Authority growth, 1996-2006



Source: Public Transport Authority

In 1926 several small companies merged into a single company—the Metropolitan Omnibus Company. Over the next 30 years, Metro (as it was popularly known) became one of the biggest bus companies in Australia and several other companies were established to serve new suburbs as Perth gradually grew.

In 1958 the state government nationalised the bus services as part of the same decision-making process that saw trams withdrawn from service. For four decades the government maintained its monopoly before, in the mid 1990s, the Court government decided to progressively contract out the operation of bus services by competitive tendering of a number of franchise areas.

It was a limited privatisation as the government retained ownership of the bus depots and the bus fleet. The buses still operate under the Transperth brand.

There are three bus operators in Perth:

- PATH (part of Australian Transport Enterprises)
- Southern Coast (part of Veolia Transport Australia)
- Swan Transit (part of Transit Systems Australia)

Under private operation patronage has grown more rapidly on Perth's buses than it has on the government operated rail system. A key advantage of private management has been improved industrial relations that have seen less industrial action and a more customer focused staff.

Melbourne's trains and trams

The largest privatisation of passenger transport services in Australia was completed in Melbourne in 1999. Two private operators each took over half of both the metropolitan train and tram networks.

In 2002, one of the operators departed and the contracts were renegotiated, resulting in single operators for the whole of the trains (Connex) and trams (Yarra Trams).

The Institute of Public Affairs recently completed a study of the performance of Melbourne's privatised public transport system. *Victoria's public transport: assessing the results of privatisation* found that privatisation can be rated a reasonable success. Key outcomes have been:

- Patronage has risen strongly—37.6% on trains and 25.5% on trams. Some of the problems the system is now experiencing (e.g. over-crowding) are problems of success rather than failure.
- Some improvements in reliability and punctuality, more consistently in trams than trains.
- New services have been introduced, resulting in an 11.4% increase in the overall number of service kilometres.
- Commuters no longer experience the huge inconvenience caused by strikes and stoppages that historically plagued Melbourne's public transport.
- 65 new trains and 95 new trams have been introduced into the system.
- For taxpayers, it has not delivered the anticipated gains, instead producing a break-even outcome.
- Risk was transferred to the private sector, although some returned to government in the re-franchising
- The highest safety standards have been retained.

There seems little doubt that, on the basis of this performance, Victoria's state Labor government later this year



will announce that private operation will be continued in Melbourne.

Undertaking privatisation

Having established that privatisation can potentially deliver significant benefits, it is also important to note that Western Australia has two significant advantages that have not been available in other jurisdictions such as Victoria.

Firstly, it can learn from the experience of others and secondly, it has a new network that does not need major additional capital expenditure.

A private operator should be sought through a competitive tendering process where tenderers make an offer, the financial component of which would be asking for the amount of subsidy they would require to operate the system.

While other larger systems (and Perth's buses) have been split into different franchise areas the Perth rail network is of a size that can be tendered as a whole.

The Western Australian government should set up a unit comprised of select personnel from the Department of Treasury & Finance, the Department of Planning & Infrastructure and the Public Transport Authority to prepare for the contracting out of the metropolitan rail system.

In order to make sure that the privatisation is done correctly it is important not to rush the process. It is recommended that the final part of the process not be

undertaken until the second half of 2009 so that at least a full year's data from the operation of New MetroRail is available and also that the new Smart Rider ticketing system is bedded down. This time scale also has the added advantage of placing it in the aftermath of, rather than lead up to, the next state election.

The contract would be for a period of between 8 and 12 years.

The Public Transport Authority (PTA) would be retained as a coordinating body. The PTA would still set multi-modal fares and could mandate and fund further extension to the network that the state government may decide are required.

In the same way that private bus companies provide services under the Transperth banner, the metropolitan passenger rail services would be provided under a contract that specified the service levels that needed to be provided. There would be an Operational Performance Regime which would provide benchmarked standards of reliability, punctuality and other key service criteria.

A key element of the privatisation will be ensuring that every aspect of asset management responsibility and risk allocation are clearly defined. As a general principle, the more risk that can be transferred to the operator the better, but only if there are clearly enunciated rules for what happens if a private operator fails to meet its obligations or gets into difficulty.

Private sector funding of road infrastructure

The funding shortfall

In 1969, expenditure on roads made up 12 per cent of the Western Australian state budget.

By 2006, this figure percentage had fallen to four per cent, as other funding priorities consumed an ever greater percentage of the state budget.

It is not as if the roads task has got any smaller—in the past four decades the road length for which the state government is responsible has risen from 10,000 km to almost 20,000km.

Main Roads WA estimates that the gap between road funding needs and the actual delivery of the required roads outcomes is almost \$400 million in 2007/08.

There are three possible funding solutions for upgrading WA's key road network:

- Increased state funding
- Increased federal funding
- Public private partnerships (PPPs)

The Western Australian Government does not seem keen to increase its own road funding and while the Commonwealth will hopefully provide the state with a greater share of Auslink 2 funds, than it did with Auslink 1, it needs to be remembered that Auslink, the key Commonwealth roads' funding program, only put funds into identified Auslink corridors which leaves out many important potential road infrastructure developments in WA.

Road PPPs do not necessarily mean that road users pay tolls. There can be 'shadow tolls' that the government pays to the private investor. PPPs to build roads and user tolls are related topics, but they can be considered separately.



Reasons for considering road PPPs in WA

In December 2002, the Western Australian Government produced its policy position on Public Private Partnerships. Entitled *Partnerships for Growth: Policies and Guidelines for Public Private Partnerships in Western Australia*, it expressed a very similar policy for the use of PPPs as the ones articulated in other states.

Although the term 'Public Private Partnerships' is relatively new, governments in Western Australia have for many years been working with the private sector to deliver infrastructure and associated services. Examples include:

- Mining companies that have joined with government to create entirely new communities in remote locations;
- Property developers which have provided community facilities in new residential developments, ahead of the arrival of government infrastructure; and
- The engagement of private designers, builders and facilities managers for the construction and operation of government buildings.

Since the policy was announced PPPs have been used for the Exhibition and Convention Centre and the law courts, but not for roads. The minister responsible for roads, Alannah MacTiernan commented that:

We put out a policy document on PPPs in 2003, in which we articulated the circumstances under which we would contemplate PPPs. We did not believe they had a role in certain core functions, but we did believe there was a place for them and they would be considered on a case-by-case basis.⁵



There are those who seem to believe that whatever the project is, it should be debt-financed by government. However, by having a policy of considering the suitability of PPPs for its capital works, a government is provided with a potential extra means of funding plus an extra discipline in assessing whether projects provide value for money.

Good PPP policy requires that all projects must offer value for money as a government investment, independent of the delivery method. Within the assessment process, the need to analyse whether a commercial rate of return can be delivered from a project to a private investor is a good way of assessing whether a project will deliver value for money.

The alternative proposed by critics of PPPs is to have projects debt-funded by government. In times of prosperity, like the present, when state governments are awash with funds due to the general prosperity and booming tax revenues, their economic management skills have never been severely challenged. However, it has always been a mistake to view benign economic conditions as prevailing indefinitely. Thus, the recent re-entry of some state governments into debt-financing to fund infrastructure is a worrying trend, especially as they are doing it at a stage of the economic cycle where project costs are high.

One constantly hears people query why governments no longer pay for the amount of infrastructure they used to directly fund. The answer is pretty simple—the mas-

sive increase in government spending on recurrent programs. Those who would like to see more direct government funding of infrastructure projects should perhaps be forceful advocates of cutting recurrent government spending.

Until that happens, governments need to have the full range of funding options available to pay for capital works and that includes PPPs.

The biggest road projects currently in WA are:

- New Perth-Bunbury Highway (\$630 million)
- Mitchell Highway extension (\$171 million)

Without having completed a detailed assessment it is impossible to say whether these could have been delivered as PPPs, but one would like to think that this was at least considered as a possibility and that all future major road projects are also viewed as possible PPPs.

Tolls

It has been a constant mantra of the current WA Government that road tolls are not to be considered. Former Premier Geoff Gallop referred to ‘our determination not to go down the path of boosting our revenue through poker machines and toll roads’.⁶

A position paper on a WA Government website makes it clear that this remains the position:

Western Australia doesn’t reap billions of dollars

from the community in poker machine taxes and toll roads. This makes it tougher for WA, compared to other states, to balance the budget and deliver the key services.⁷

It is perhaps surprising that the state with the nation's most entrepreneurial reputation is the most reluctant to go down the path of the developing business of toll roads.

Toll road businesses in other states are doing very well. Sydney's Westlink M7 saw its June quarter revenue rise 20.7 per cent to \$38.2 million compared to the corresponding previous period while Melbourne's CityLink saw revenue in the June quarter rise 9.7 per cent, to \$85.7 million, compared to the previous period, with average daily traffic volume up by 3.7 per cent.

Public Private Partnerships interstate and overseas

The increasing use of private sector funds to finance key infrastructure is a growing worldwide trend. As the Reason Foundation stated in the United States context:

...the major highway funding shortfall is a key reason governments are increasingly turning to long-term PPPs to deliver new transportation projects.⁸

Many European countries have also embraced PPPs in the process changing the way they set spending priorities and manage their roads.

Australia has a long history of private sector investment in roads, through public private partnerships (PPPs), with 11 contracts signed over the past 20 years. Currently there are nine road projects in operation, equating to over \$12 billion of infrastructure being delivered by the private sector. Major completed road PPPs include the Western Sydney Orbital and Melbourne's City Link, while Queensland is now also embracing the model.

A recent review of Australian road PPPs found that continued investment by the private sector into Australian roads, and the Government's ongoing support of public private partnerships (PPPs), is critical to the nation's sustained economic prosperity.

Ernst & Young's inaugural review, *Private Finance and Australian Roads*, found that:

PPPs have delivered much needed road infrastructure and are essential to the future economic growth of Australia. Even with all the criticism targeted at the Cross City Tunnel, the NSW tax payer has incurred no cost and Governments continue to achieve positive commercial and operation outcomes from PPPs

The Australian toll road PPP market continues

to evolve, particularly around risk allocation, payment mechanisms, revenue sharing and the approach to protection around competing routers. While recently completed transactions show private sector accepting more risk and receiving better value for money, there is scope for new payment mechanisms around availability, safety and congestion, as well as shadow tolls, to be considered if the model is to grow into its full potential.⁹

Incidentally, PPPs potentially have a role in rail as well as road. In New South Wales a private sector consortium will provide Sydney with passenger rail carriages for the next 30 years. The contract valued at up to A\$8 billion has been awarded to the Reliance Rail consortium, which is comprised of Downer EDI, AMP Capital, ABN Amro and Babcock & Brown. Under the contract the consortium will design, construct and maintain a total of 626 carriages in the largest PPP contract in Australian history.

To date New South Wales has undertaken the two largest PPPs, while Victoria has been the state to most actively use the PPP financing method with 16 projects underway, ranging from the Melbourne Convention Centre (A\$367 million) to the Eastlink tollway (A\$2.5 billion). In total, Victoria's PPPs are valued at around A\$4.5 billion and represent around 10% of the state's infrastructure budget.

Taxi deregulation

The availability, cost and quality of taxis is a key element of the transport mix in any city.

While all Australian capital cities have issues with their taxis, Perth's problems, especially in relation to taxi availability, are more critical than its interstate counterparts.

Along with the limits on retail trading hours and the proscriptive liquor licensing laws, the undersupply of taxis is a key contributor to why Perth sometimes struggles to reach the 'leading city' status to which it aspires.

Just as the policy on shopping hours has been determined by certain retail traders and the licensing laws by certain existing licensees, the policy on taxis has been determined by existing taxi licence plate holders.

'Perth's taxi ratio the worst in nation' **The West Australian, 11th October 2006**

The truth behind Perth's late-night taxi crisis has emerged with new figures showing there is just one cab for every 1111 people—fewer taxis per head of population than any other major Australian city.

The Australian Hotels Association and the Safer Northbridge committee claim the chronic shortage has forced a blowout in waiting times, with patrons forced to queue for up to three hours during peak periods in Northbridge and Fremantle.

In Brisbane, the ratio is 888 people for every taxi, 900:1 in Sydney, 940:1 in Melbourne and 1097:1 in Adelaide. The Perth ratio will drop to one cab for every 1012 people in the metropolitan area when an extra 130 taxis are introduced before Christmas.

History and background

The original Swan Taxis was established in 1928 and for sometime was one of a number of competing Perth taxi companies.

In the 1950s, it grew by amalgamation and expansion so that, by 1960, Swan Taxis Cooperative had purchased its last two major competitors and in doing so increased its fleet to almost 400 taxis.

Some years later Swan Taxis purchased White Top and Coastal Cabs of Fremantle, thus producing a situation where the entire metropolitan region, including the rapidly developing industrial area of Kwinana was now fully serviced by the Swan Taxis Cooperative. In a marketing ploy, Swan Taxis relaunched the Coastal Cabs name in Fremantle and Rockingham in 1998, as they had also done with Yellow Cabs earlier in the 1990s in Perth.

Even before it had achieved its industry dominance, Swan was seeking to restrict entry into the industry. The history section of the company's website records the following:

In 1954 the then Minister for Transport decided to issue 150 taxi plates for the princely sum of seven shillings and six pence each. This large influx of additional and largely under utilised taxis on the road led to frustration in the industry which sometimes saw as many as 50 cabs queuing for business on city ranks.¹⁰

The company history also notes with delight the 1964 establishment by the state government of the Taxi Control Board (replacing previous regulation by the Police Traffic Branch) which it says was 'a popular step as it provided the industry with the opportunity to control its own destiny'.

And the industry certainly did control its own destiny, ruthlessly ensuring that the industry was run for its existing members rather than in the interests of potential new entrants or customers.

It did this by restricting access to licenses which meant that over time the number of taxis became less and less appropriate for a city of Perth's growing stature. For not only was the city's population growing faster than new licenses were being issued, it was also a period when disposable income was increasing, peoples travel needs were becoming more diverse, attitudes to drink driving were changing and tourism was opening up a whole new market of potential cab users.

The failure of the taxi industry to keep pace with the needs of a growing city reached its climax in a 14 year period when no new taxi plates were issued at all. In a period of growing population and growing demand taxi users and potential users suffered while the holders of existing licenses saw the value of those licences rise rapidly. Successive state governments were effectively increasing

Table 1: Metropolitan taxis, Perth

Conventional Taxis	923
Area Restricted Taxis (Armadale/ Gosnells, Kalamunda/Mundaring, Wanneroo)	14
Multi Purpose Taxis (wheelchair accessible)	32
Peak Period Restricted Taxis (Friday and Saturday Nights)	88
Leased Conventional Taxis	176
Leased Peak Period Restricted Taxis (Friday and Saturday Nights)	106
Leased Multi-Purpose Taxis (Wheelchair Accessible)	51
Leased Area Restricted (Armadale/ Gosnells, Kalamunda/Mundaring, Wanneroo)	8
Total	1398

Source: Department of Planning and Infrastructure

the wealth of a small section of the community at the expense of everyone else.

The prospect of a challenge to this cosy relationship was raised with the introduction of National Competition Policy (NCP) in 1995. The National Competition Council included taxis as an area that needed to be assessed by state governments. The Western Australian review found that:

Restricting plate numbers leads generally to a sub optimal number of taxis in the market as complaints from the industry, if plate numbers are too high, are likely to be more vocal than those from consumers if there are too few taxis... Regardless of the sophistication of the models used, it is highly unlikely that the market optimal number of taxis will be reached in a regulated environment.

The review recommended that there be a taxi plate buy-back. The Court Government took no action on the recommendation while the then Labor Opposition supported the concept of a buyback. The Macquarie Bank expressed interest in providing financing to fund what was estimated at being a \$200 million buyback. There was strong opposition from both the Taxi Council of WA (representing 800 owners) and WA Taxi Association (representing 3000 drivers) and finally in August, 2003 they got their way with the Government dropping the buyback

plan the day before a mass rally against the proposals was due to be held at Parliament House.¹¹

The WA Government was not alone in its failure to deregulate—only the Northern Territory undertook significant reform (see below). The NCC has continued to argue that reform is needed. In a speech to a 2005 taxi conference Alan Johnston, a Director of the NCC argued that the taxi industry stood ‘out like a beacon’ among industries when it came to the need to deregulate and he believed that the industry and most states had been unable to establish that restrictions were in the public interest—rather they were in the interest of industry stakeholders such as plate holders.

While the WA Government backed down on major reform, Minister for Planning and Infrastructure, Alanah MacTiernan has continued to take more action on behalf of taxi consumers than most state ministers around the country have done in recent decades.

In December, 2003 the Taxi Act was amended to allow licenses to be leased rather than sold by tender and soon after 48 lease licences were advertised. It was then announced that a further batch of licences would be made available annually.

The Government announced that its leasing scheme had three objectives:

- To give drivers the opportunity to be owner-operators
- To meet increased public demand for taxi services and
- To reduce cost structures, therefore reducing pressure on fares.

As a result of the Government’s measures, between 2003 and 2006 there was a 27 per cent increase in taxi numbers meaning that, as of March 2007, there are 1,398 metropolitan taxis and 447 country taxis.

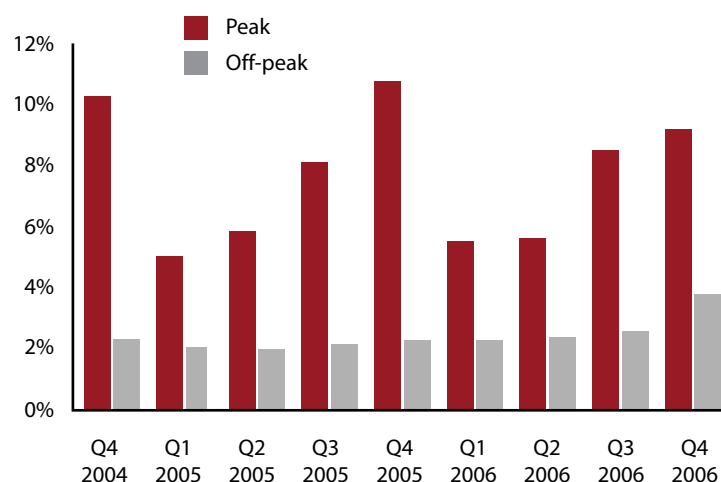
The Department for Planning and Infrastructure, which regulates the number of taxi licence plates, has produced a break down of the licensing arrangements for the 1,398 metropolitan taxis. (See Table 1.)

A limited number of new leased plates are made available each year. The current rates for conventional taxi plates (lease term 8 years) are \$250 per week with 10 year terms and cheaper rates for other lease types.

The taxi industry regularly complains about the leasing of plates, but the Minister points out that they have little to complain about as values have continued to increase from \$202,796 to \$229,936 since leasing was introduced.¹²

In an excellent speech Minister MacTiernan delivered at the Australian Taxi Industry National Conference in April, 2006 entitled ‘Can we make a regulated industry customer driven?’, she took on a number of the sacred

Figure 2: WA taxis, percentage of passengers not picked up



Source: Talking Taxis, Number 4, 2007

cows of the taxi industry.

She began by criticising the Taxi Industry Association President for leaving the customer out of his list of drivers of the industry and said that ‘the demand for preservation and indeed enhancement of plate values is putting the cart before the horse’.

Since that conference speech the Minister has also backed up her rhetoric to some extent by announcing in March this year that the Taxi Act would be amended to allow the issuing of up to 20 new taxi licence lease plates each month for 12 months. The aim is to get the job coverage rate at least back to 2003 levels.

As part of the amendments to the Taxi Act, the Minister also introduced provisions to make it a serious offence with a \$5000 fine not to have issued plates attached to an operating vehicle. ‘As of right’ licensing would remove the need for this sort of draconian legislation.

The service quality figures are remarkably poor. (See Figure 2)

In making her March 2007 announcement of additional leased taxis the Minister acknowledged that even with her reforms ‘Perth’s ratio of taxis to population remains the lowest among Australia’s major capitals’. She further commented:

It is in the best interests of the industry, as well as the community, to have sufficient taxis on the road, otherwise the demand for deregulation will grow.¹³

Well the time has undoubtedly been reached when consumers of taxi services do deserve to experience the benefits of deregulation.

Deregulation precedents

Deregulation of taxi industries has been shown to have enormous benefits for consumers.

It has been undertaken in many cities around the world, in countries as diverse as the United States, United Kingdom, New Zealand, Japan, South Korea, Netherlands and Sweden.

Given its reputation as the home of big government, Sweden makes an interesting example. Its taxi industry was deregulated in 1990, with its government accepting that the best service for the lowest economic cost would be supplied by a deregulated taxicab industry subject to free market forces.

In the past thirty years deregulation or partial has occurred in many U.S. cities including San Diego, Seattle, Phoenix, Portland, Sacramento, Kansas City, Milwaukee and Indianapolis.

Dublin

In Ireland taxis had been regulated since 1978 and the restriction of the supply of licenses had driven up the price to 90,000 Irish pounds by 2000.

In that year the Irish High Court ruled that the existing regulation infringed the rights of people to enter a sector for which they had the training and skills and the right of the public to purchase the services of such persons.

The Irish taxi industry was forced to deregulate and in Dublin the results were particularly striking. Within two years the number of taxis on the road had trebled!

Consequently passenger waiting times were drastically reduced—the proportion of people waiting for more than five minutes for a taxi fell from 75 percent in 1997 to 52 percent in 2001.

The price of a taxi license fell to approximately 5,000 Irish pounds and with overall market entry costs falling by 74 percent, the cost base for the industry was reduced which, in time, lowered fare rates.

There was also no drop in standards, or in the quality of service.

Despite the successes of deregulation, previous license holders have had some success in diluting its impact. Existing license holders will be compensated for the losses they incurred as a result of the fall in the price of licenses. Moreover, a new taxi regulator and Taxi Advisory Council have been established to oversee industry standards, license fees and stakeholder interests.

Darwin

As noted earlier, the prospect of deregulation in Australia was raised by the introduction of National Competition Policy (NCP) in 1995. The National Competition Council included taxis as an area that needed to be assessed.

The Northern Territory was the only jurisdiction that actually went down the deregulation path, implementing its new policy on 1 January, 1999.

The number of taxis in Darwin rose from 87 prior to deregulation to a peak of 137 before plateauing at a figure slightly below that. After the first two years of the new system it was found that there had been ‘reduced waiting times and improved service, with consequent reductions in complaints to the regulator’.¹⁴ There were also beginning to be examples of fare discounting and niche marketing.

Undertaking taxi deregulation

In an ideal world the government would issue taxi licences to anyone who wanted one subject to suitability checks and the payment of a modest administrative fee.

Yet, given the lengthy history of taxi regulation getting to that ideal position is not a simple exercise.

What is clear, however, is that the fact that historically governments have pursued poor policies should not be a reason to continue to disadvantage consumers and potential new operators of taxi services today and into the future.

There are two extreme positions that could be adopted—full compensation to current licence holders and no compensation at all.

Governments are naturally reluctant to spend the significant sums of money required to buy back licenses at their full current value. In the cases of New South Wales and Victoria this cost would be approximately \$1 billion each, while in WA it is still a very significant \$200 million plus.

On the other hand, a decision to deregulate without compensation, while delivering a much better result for taxpayers, would clearly impose significant hardship on many taxi licence investors who would feel that they had invested in taxi licences in good faith and, while they may have no legal right to compensation, there is probably a moral obligation to ensure that they do not lose the total value of their investment in one fell swoop.

The move to deregulation needs to identify a position somewhere between these extremes. There are a variety of ways this can be done, through issuing extra licenses each year for a number of years and gradually reducing the cost at which they are offered.

As well as benefiting consumers deregulation would also be of massive assistance to drivers particularly those seeking to become owners. They would no longer need to take out a massive loan to fund a plate purchase.

As for those who argue that their taxi plate(s) are their superannuation policy, there are many other normal investments that do not rely on artificial regulation such as property or shares that would be far more suitable.

Conclusion

As Western Australia continues its rapid growth, the state increasingly needs the transport infrastructure and services that enables individuals to move around the city of Perth and minimise the costs of congestion to both the economy and to the quality of life.

Three public policy issues stand out as the ones within the transport sphere that demand the most urgent attention—the metropolitan rail network, infrastructure funding for road services, and the taxi industry.

Too often transport policy is driven by vested interests such as rail industry unions or the owners of taxi plates. The guiding principle of *Moving in the right direction: transport reform in Western Australia* is the desire to place the consumer as number one. Whether a resident of Perth wishes to catch a train or taxi or drive their own motor vehicle, the reforms proposed here will make all three options just a little more attractive.

To address these three policy areas Project Western Australia makes the following key recommendations:

- Privatised Perth's metropolitan rail network
- Ensure that private sector funding (public private partnerships) is considered as an option to pay for any future major greater metropolitan road projects
- Allow greater competition in the taxi industry

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11. An interesting sidelight to the debate about deregulation in the early years of the Gallop Government was the role of Brian Burke as a lobbyist. See Paul Omodei, Media Release, 9 November, 2006
12. *Talking Taxis* No 4, April 2007
13. Media release, 5 March, 2007
14. Rex Deighton-Smith, *Reforming the Taxi Industry in Australia*, *National Competition Council Discussion Paper*, November 2000 p. 11

Chapter 3

**Creating a liveable city:
how Perth can capitalise on the
resources boom**

Louise Staley

Introduction—choice and lifestyle in Perth

The title of this chapter begs an obvious question—surely Perth is *already* a ‘liveable city’? It’s friendly like a ‘big country town,’ and has a great ‘laid-back lifestyle.’ Not to mention the beaches, beautiful setting, and the Mediterranean climate. Little wonder many Perth residents regard it as the best city in the world. Yet the ‘dullsville’ tag is mentioned almost as often as the ‘laid-back lifestyle.’ Many people, both residents and visitors, have noticed Perth would benefit from being more vibrant, more diverse and with greater options.

This chapter starts from two powerful ideas: that people should, as far as possible, be allowed to choose how they live their own lives and that letting them do so will bring additional prosperity to Perth.

Delivering on those ideas could take many forms. Overwhelmingly the ways that will deliver more freedom and more prosperity fit well with much of the debate already going on around Perth about what a future Perth could look like. This chapter discusses five, interlinked, proposals. Some ideas, like the freeing up of shop trading hours and the implementation of the new liquor licensing reforms are also high on the agenda of other groups thinking about how Perth can evolve. Other proposals, such as implementing a target of 50,000 additional tertiary students from China and India are bold new ideas that deserve further discussion and evaluation.

Together, these five proposals are designed to help Perth evolve from ‘dullsville’ to a vibrant, multifaceted city, enmeshed on many levels with the power houses of China and India, yet which continues to provide the famed ‘laid-back lifestyle’ attractive to so many current and future residents. Delivering that lifestyle must include keeping Perth affordable for ordinary families just as much as it embraces new entertainment options, attracts new industries and people, and upgrades the city centre. In the midst of prosperity, governments must not get carried away with grandiose building schemes that would be much better delivered by the private sector. The paralysis and buck passing that has characterised projects such as the Northbridge railway lines and river foreshore should be resolved by private sector involvement.

Perth is abundantly blessed with good fortune. The current enormous wealth generated from the resources industry offers opportunities not available to almost any other city on the planet. Because of this wealth Perth could remain prosperous for a long time without enacting much reform at all. After all, it has a very high standard of living despite all the restrictive rules that every other state has dealt with. But Perth pays a big price for pandering to the special interest groups that want no change in

shopping hours or don’t want anyone having a glass of wine after work in their suburb. There is a large body of research that suggests that diversity of choice and lifestyle are important to attract and retain the sorts of people essential to a city’s future. Specifically, many young, tertiary educated people place a very high importance on being able to find the sorts of shops and restaurants and bars that interest them and to live in the sort of housing they want. People in highly knowledge intensive industries such as engineering, life sciences, education and computer sciences, as well as the classic creative occupations of the arts, media and design, like lots of choices and they value the very fact the choices exist even if a particular choice is not to their taste.

The research shows that cities which allow choice and diversity in people’s day-to-day lives are better at incubating new industries and attracting the highly skilled workers needed to grow the economy in the future. At the same time, the experience in other Australian states has shown that the broader population also embraces the removal of archaic restrictions. No government would ever attempt the reintroduction of shop-trading-hour restrictions; there would be an outcry.

Individual entrepreneurs and companies rather than governments will identify the best opportunities for future profitable growth. This growth should be from a myriad of industries, probably leveraging off the clear expertise in mining, but paths of growth could travel in unexpected directions. For this to occur Perth needs the right regulatory environment and the right people. Becoming the most attractive jurisdiction to do business in, not just in Australia but globally, and attracting the most talented, creative and educated minds are achievable goals. The current boom offers the clear opportunity to put the house in order: to repeal unnecessary restrictions on people’s lives and businesses, to improve transparency and predictability in government decision making, and to reduce tax and lift the compliance burden. All these policy actions will be of great advantage to Perth residents, both those already here and those still to be attracted and will ensure ‘dullsville’ is consigned to the history books.

1. Shopping, drinking & taxis

It may once have been treasured as an easygoing, overgrown country town, but the reality is that as a 21st century capital, it just doesn't cut it¹ was the depressing conclusion of *The West Australian* editorial. That 'big country town' epithet no longer applies—Perth has 1.4 million residents, which makes it bigger than Amsterdam, Prague and Stockholm, all of which are international destination cities for both tourists and creative class workers.

This report joins with others that have called for reform of shop trading hours and liquor licensing. There are clear benefits from shop trade and liquor license reform—attracting and retaining the sort of workers the city needs now and in to the future are vital. Furthermore, there are the benefits to Perth's businesses who will be able to take advantage of the reforms to become more innovative and competitive, to their advantage and their customers.

However, while these reasons are important, this report has a simpler reason for enthusiastically recommending the removal of archaic and restrictive rules. Liberty to make decisions is important. Individuals gain by having control of their own lives. Liberty over small decisions—'shall I have a drink with friends after work?' or 'I'll have lamb tonight, I'll just pick some up on the way home'—are important everyday exercises of liberty. While not accorded the import of the great liberties—like the right to vote, to free expression, and to the rule of law—for most people, simply being able to do what they want at the micro level is an essential part of liberal society. It is time Perth's people were allowed these everyday choices.

Delivering on shop trading reform, liquor licensing implementation and taxi deregulation is key to changing Perth into a globally focussed, confident city. All these policy changes should be as enthusiastically embraced by all political parties as they are by Perth's business and cultural leaders. By now, given the publicity of so many locals and visitors all saying the same thing, the refusal of the political class to act can only be described as a profound lack of leadership.

Perth needs to change the regulation of shopping, liquor and taxis to be consumer rather than producer focussed. Making these changes will have the biggest impact on the city and its residents because they are both practical and symbolic barriers to Perth evolving into a global liveable city. As Deidre Willmott of the Western Australia Chamber of Commerce and Industry (WA CCI) says 'It is a real barrier to vibrancy in the city when the government tells business when to open and close'.²

The reforms must go beyond shopping, liquor and taxis to a change in regulatory mindset at the city council and state government. As Charles Landry astutely notes

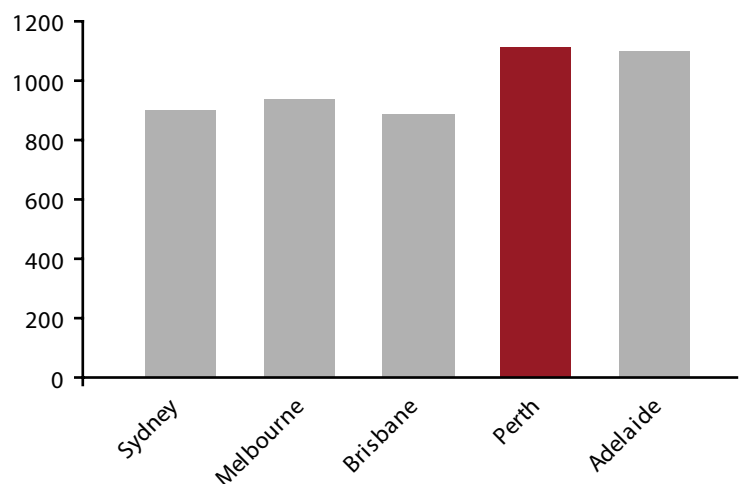
when it comes to building regulations, they need to take the emphasis of making sure things meet the minimum standard—it should be a case of guidelines. Council officers want to hide behind standards. We need to get rid of the tick-the-box approach.³

However now the most important priority is making a start with the highly visible trifecta of shopping hours, liquor licensing and taxi numbers.

While the arguments about deregulation of shop trading hours and the actual delivery of flexible liquor licensing laws are well understood, the deregulation of taxis has to date not been placed in the same category and calls for reform have been more muted. Yet dissatisfaction is clear in the numerous snippets of complaint regularly appearing in the newspapers. For example, tourism analyst Alan Boys says 'the bad experiences that I am hearing about regularly from corporate guests is just appalling. It is an absolute disgrace'.⁴

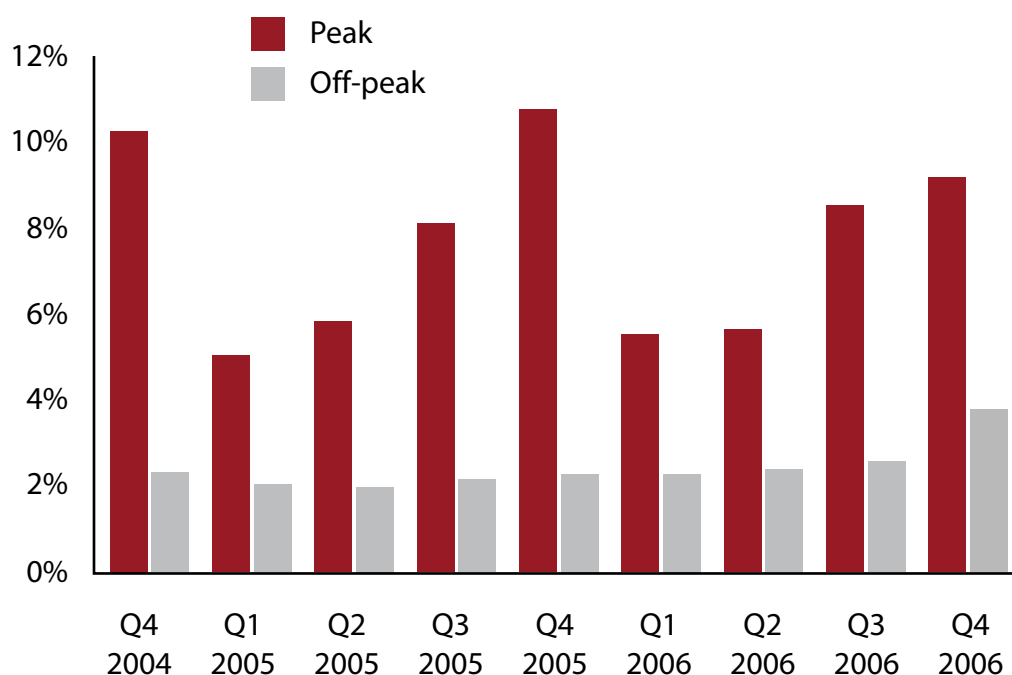
Limited access to taxis inconvenience locals, encourage drink-driving, and hurt tourism. Unsurprisingly alternatives to taxis such as limousines that operate under a small charter vehicle licence are

Figure 1: People per taxi, Perth, 2006



Source: Richard Allsop, 'Moving in the Right Direction', Project Western Australia Discussion Paper, July 2007

Figure 2: Western Australia taxis, per centage of passengers not picked up



Source: Richard Allsop, 'Moving in the Right Direction', Project Western Australia Discussion Paper, July 2007

booming, particularly for time sensitive long trips to the airport.

However these alternatives are very restricted in their use as they must be pre-booked and cannot be hailed or sit on a taxi rank. Also they are subject to minimum trip charges.

The taxi industry is dominated by individual owners who have paid very high prices to own the right to operate a taxi. Reform of the industry to make taxis more available will reduce the value of the plates owned by existing owners. Unsurprisingly current plate owners argue no additional plates should be issued or, failing that, that the government should buy back licenses at the average plate transfer value of the past 12 months.⁵ Given that figure is \$230,873 per plate and would cost the State Government \$246 million to achieve, a buy-back is unlikely to occur. Moreover, to pay out taxi-drivers at a level far above what any plate was originally sold by the government is a very poor use of taxpayers' funds, and delivers windfall gains to a very small group of people who are currently undergoing boom business returns. Indeed, the head of Swan taxis says 'it has never been so viable. It hasn't been as busy as this since 1973. They're taking big money.'⁶ The last time Perth sold licences was 1989 and they were sold as interest-free loans at 75 per cent of the then market rate which allowed plate owners to own their plates in about seven years. It could therefore be argued that those taxi licence plate holders already benefited from government largess, after all in what other industry

does the government advance an interest free loan?

The need for reform is overwhelming. Perth's ratio of taxis to people is the worst in the nation. The shortages are particularly acute in Northbridge and Fremantle at night but service quality figures generally are unacceptable. The chart below underestimates the scale of the problem because it only covers booked taxis. However, it is difficult, if not impossible, to measure the impact on the city from generally being unable to hail a taxi. As the supply of taxis tightens locals adjust their behaviour, the spontaneity available in a city like London with plentiful taxis is taken away from Perth residents and probably surprises tourists.

Specific taxi reform program

1. Legislate an extension of the leased licence plate scheme with a five year initial target of matching Brisbane's taxis per person ratio and the further partial deregulation of the industry in a measured and predictable way at the end of five years. This will result in a gradual diminution of licence plate values and allow current plate holders to make considered judgements.
2. Abolish minimum fares on small charter vehicle and tourist charter licences.
3. Legislate to require booking services (Swan and Black & White) to include leased plated taxis on their networks.

2. Enhancing & retaining Perth's lifestyle

One of the most important things about Perth's great lifestyle is its accessibility. Everyone can get to the beach easily, the spectacular views from Kings Park are free for all and the Mediterranean climate offers a BBQ and outdoor living lifestyle in backyards and parks. Similarly, the whole community shares in the safety and cleanliness of Perth.

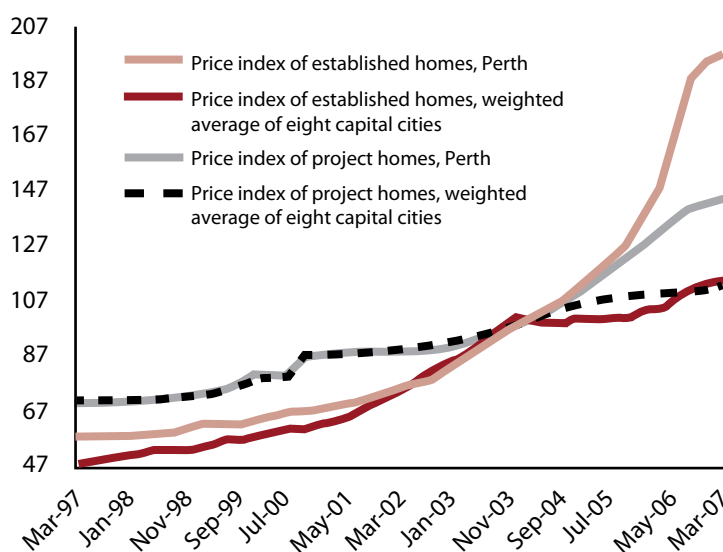
However, along with these natural and community benefits are the private benefits that have traditionally meant Perth residents could own their own home, enjoy a high standard of living and provide for their families. 'Over long periods of time, and in differing economic conditions, Western Australians have continued to express a strong preference for their own home, often in a new suburb, on a relatively large block of land'.⁷ This has resulted in home ownership rates (including those with mortgages) of 70 per cent.⁸ Going forward however, those traditionally high home ownership rates are at risk as unaffordable housing becomes an entrenched feature of the city.

Housing is too expensive

Early in 2007 Perth achieved the dubious honour of the most expensive median house prices in Australia. Since then Sydney has reclaimed the top spot but Perth is well entrenched at a close number two.⁹ Perth remains the most expensive unit/flat market.

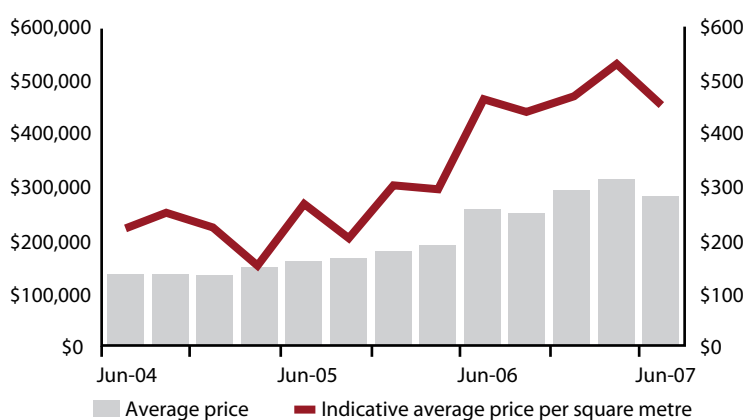
Numerous enquiries, reports and analyses have concluded that the cause of Perth's unaffordable housing is lack of land supply. Perhaps the most authoritative commentary is from the Western Australian Department of Treasury and Finance who concluded 'land supply is a key factor influencing the housing market. Limited land sup-

Figure 3: Perth housing prices compared to the rest of Australia



Source: ABS 6416.0

Figure 4: Average price of lots sold, Perth



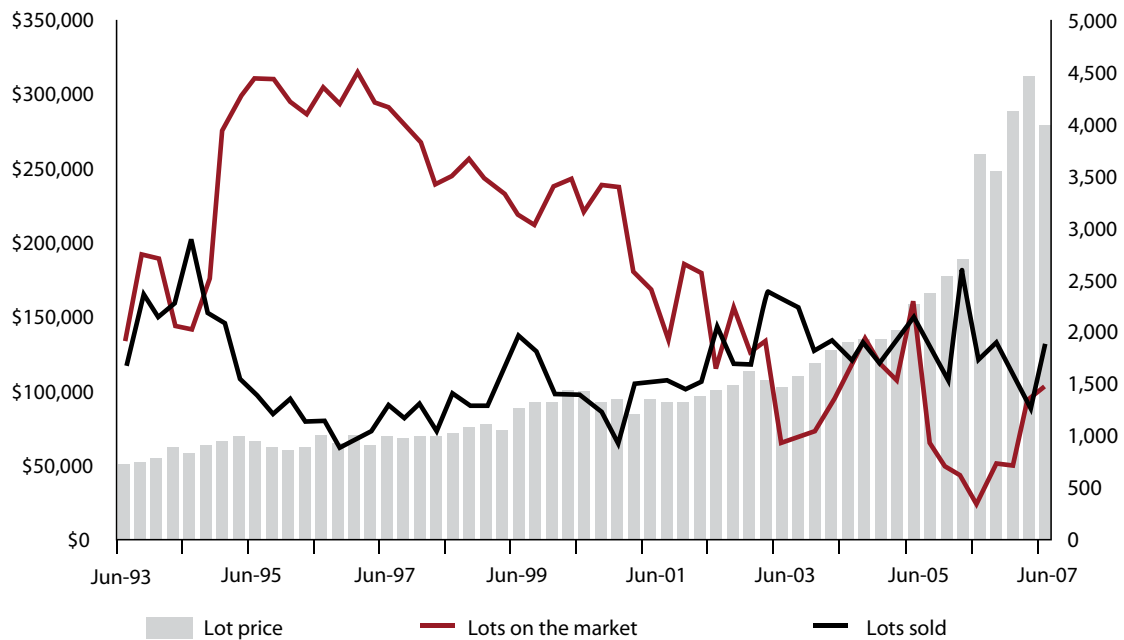
Source: WA Department of Treasury and Finance which cites UDIA

Table 1: Median House and Unit Prices as at June 2007

	Houses	Units
Sydney	559,770	407,181
Perth	405,115	460,546
Brisbane	411,491	301,264
Melbourne	402,817	322,470

Source: RP Data. Rp Data—Rismark Property Index
3 September 2007

Figure 5: Lot price, lots available and lots sold



Source: WA Department of Treasury and Finance, citing UDIA

ply has led to higher land prices and hence fed through as higher prices of new homes'.¹⁰

Yet Perth has no shortage of suitable land for building, nor is there a lack of attractive apartment sites closer in. The problem is that inappropriate planning rules seek to restrict new housing developments and encourage infill, but fail to achieve that additional infill, leading to a general restriction on housing supply. Edge development is restricted, despite ongoing demand for this sort of housing, but infill doesn't work because existing residents are effective at stopping it.

Affordability is low

A well-established method of comparing housing affordability is to divide median housing prices by household income. Over the decade to 2006 Perth's ratio has risen from 3.7 to 8.0 making Perth number eleven in a global survey of 157 housing markets and rated as severely unaffordable.¹¹ One result of such high housing prices has been the virtual elimination of first home buyers from the market. Only 1,590 first home buyers entered the market in August bringing the total for the year to 9,851.¹²

According to the Preliminary Report by the Western Australia Housing Affordability Taskforce,¹³ only six years ago Perth housing was the most affordable it had ever

been and the most affordable of all Australian capital cities. Since then Perth has become so unaffordable that it takes an income of \$120,000¹⁴ to qualify for a loan on an average-priced home. With average household incomes of \$56,420,¹⁵ the hardest hit are middle and low income households, particularly those reliant on one income.

Solutions well known but not implemented

The solution to this problem is increasing the supply of housing. The crisis cannot be fixed overnight as many people have made decisions based on a continuation of restricted supply/high prices and to suddenly release enough land to bring prices down to an affordable level will mean some households experience negative equity. However if housing prices are stabilised over the medium term income will catch up and affordability will improve.

The State Government has announced some measures designed to alleviate the problem; the most important of these is a target of 20,000 new housing lots for the Perth/Peel region. The announcement of this target is in line with an acknowledgement by government that supply is crucial. It is therefore vital that this target is met and that further

substantial targets are set in coming years. Other policy announcements have been at best of marginal use. First home buyer conveyancing fee exemptions are of little use if first home buyers cannot find any properties they can afford and the shared equity scheme adds to demand, when supply is the problem.

In addition to ensuring adequate land on the edge is available for housing, more needs to be done to encourage a variety of infill projects. While most families with children want detached homes, young people, singles and empty-nester couples are increasingly looking for alternatives. One reason Perth has the highest cost flats and units in Australia¹⁶ is their relative scarcity. (The other is the overall scarcity of housing forcing some people who would prefer a house to live in a less expensive option).

Table 2: Per centage of households living in flats and units

Perth	9%
Brisbane	12%
Melbourne	15%
Sydney	24%

Source: RP Data. Rp Data—Rismark Property Index 3 September 2007

The key here is the creation of a variety of housing choices from high density students digs through to multi-million dollar pent-houses with spectacular views and amenities. And the key to achieving that range of housing choices is freeing up the planning process. Infill is often very contentious as existing homeowners worry that additional housing in their areas will lead to their house being worth less. If increased infill is the goal of the planning scheme the issue of who can object to a proposed development must be faced head-on. Those directly affected by new developments such as next door neighbours must continue to have the right to object to being overshadowed or inconvenienced however if the State Government is to achieve its own infill goals the grounds of standing must be narrowed. As

Energising the CBD through residential development

Perth lags all mainland capital cities in the number of people who live in the Central Business District (CBD). Melbourne is the clear leader in the number of apartments and the number of overseas students (using non-Australian citizens as a proxy for overseas students). The high number of residents in Melbourne's CBD did not occur by accident. In the early 1990's the Melbourne City Council and the Kennett State Government created a program called Postcode 3000 which had the aim of producing 3,000 apartments in the central city by 2000. This goal was reached early and those initial residents have proved a magnet for a range of new city developments leading to the higher numbers of CBD residents than other states.

Melbourne City Council, with some State Government funding developed a number of programs to encourage developers to convert office space to housing. Later this was expanded to new buildings. Policy changes included streamlining approvals and changing criteria to make apartment development possible, the reassessment of council rates for the construction period and fee relief from some permits. Council also undertook some capital works to improve street amenity. These works included street tree planting and the upgrading of footpaths.

At the beginning of this process very few people lived in Melbourne's CBD—there were no supermarkets and the city was known as a ghost town at night. Initially neither Optus nor Telstra rolled out residential cable to apartments so residents were forced to use dial-up. Pay-tv was not available and some areas had very poor reception. The Postcode 3000 program acted as a focus point to have these services delivered, which in turn made the city a more attractive residential destination.

The success of this program was driven by a mindset change rather than money. Relatively small amounts of funds were used to achieve a significant policy success which has become an integral part of the success of Melbourne's CBD as an interesting destination.

Table 3: Residents in the CBDs of Australian cities

	Living in the CBD	Citizens from countries other than Australia
Sydney	13,549	10,200
Melbourne	20,359	11,844
Brisbane	13,921	5,800
Perth	6,341	3,613
Adelaide	10,229	5,785

Source: ABS Census 2006

it stands now, with such high land prices in inner and middle suburbs, the risk of getting bogged down in objections and appeals can make infill developments too risky to pursue.

If Perth's famed laid back lifestyle is to be anything more than a slogan, a number of policy changes need to be made. Housing affordability is central to these changes because the central part housing plays as both shelter and the major investment for most people.

3. Educating China and India—Perth as global knowledge hub

Perth, and Western Australia more broadly, owe much of their current strong economic growth to demand from China and India for raw materials. While this demand is likely to continue for many years Perth has the opportunity now to deepen and broaden engagement with these two powerhouse economies. Attracting many more tertiary students from China and India is a key way Perth can enmesh itself in the future growth of the region.

Currently over 150,000 students from India and China are enrolled at Australian universities. Western Australia has an eight per cent market share, a figure that has been falling in recent years as others States have been more successful in attracting students from the growth markets of China and India.

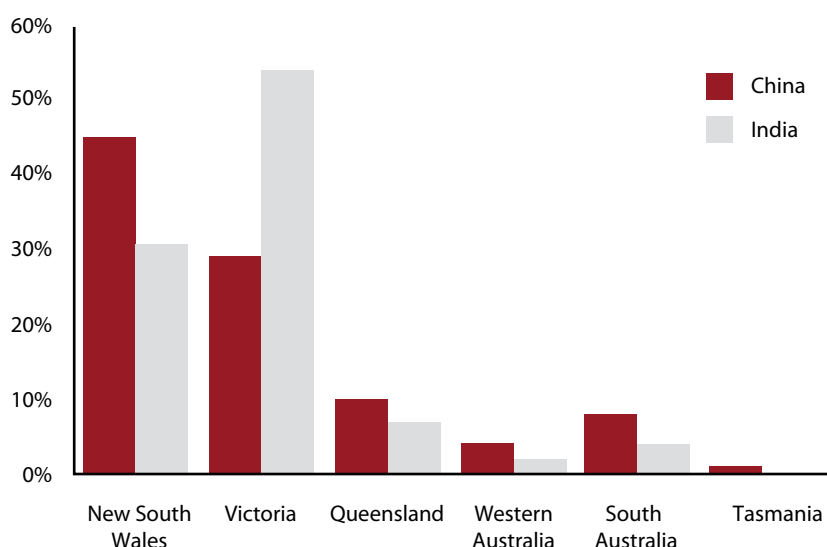
Table 4: Total overseas students and share by state, September 2007

	Overseas students	% total
New South Wales	159,242	39%
Victoria	121,001	30%
Queensland	59,355	15%
Western Australia	32,353	8%
South Australia	21,595	5%
Tasmania	3,930	1%

Source: Australian Education International. Market Indicator Data 2007. Canberra: Australian Government, 2007

China is the number one source of overseas students to Australia and India is number two. Overseas students from China and India comprise about 37 per cent of total overseas student enrolments. NSW attracts 45per cent of Chinese students and Victoria 54per cent of Indian students. By contrast, Western Australia enrolls four per cent of the Chinese students studying in Australia and only two per cent of Indian students lagging all mainland states in students from these markets.¹⁷ Despite enrolling a greater total number of overseas students than South Australia, Western Australia even lags SA in the number of students from China and India.

Figure 6: Share of overseas students from China and India, September 2007



Source: Australian Education International. Market Indicator Data 2007. Canberra: Australian Government, 2007

Table 5: Comparison of WA and Victorian Chinese and Indian overseas student numbers & required WA growth

	WA now	Victoria now	WA in 2018	WA increase
China	4,267	38,204	28,000	23,933
India	1,300	29,766	30,000	28,700
Total	5,567	57,970	58,000	52,633

Source: Australian Education International. Market Indicator Data 2007. Canberra: Australian Government, 2007; IPA calculations

A goal over the next decade is for Perth to increase the number of overseas students from China and India by about 50,000 per year. The benefits to Western Australia will be immense and multifaceted, encompassing economic, social and cultural aspects. This will put Perth where Victoria is now in terms of students from those countries. This is the equivalent of building two whole new universities so is an ambitious goal. To achieve this goal over the next decade, Western Australian universities will need to enrol an additional 5,300 students every year until the total additional 52,000 students is reached in 2018. The University of Western Australia recently announced an intention to increase student enrolments (domestic and overseas) by 5,000 per year, citing a need to achieve the critical mass required to compete internationally.¹⁸ This initiative needs to be built on and resourced so that across the sector this growth can be achieved every year.

Achieving this goal need not come at the expense of other states; China and India remain growth markets for Australian education. In 2005 the growth in students from India was 33.5 per cent and China also showed strong growth. Nor is this goal 'pie in the sky,' increasing Western Australia's overseas student enrolments by 5,000 students per year is a fifteen per cent increase on current total overseas students. Swinburne University in Melbourne reported a 40 per cent growth in 2006 overseas student commencements as the result of a changed marketing strategy.¹⁹

Perth has already attempted to brand itself as 'Perth Education City' but this longstanding initiative has not delivered at the tertiary level in relation to students from China and India and has not kept up with best practice in areas such as internet marketing (see web case study on page 12). Whether this consortium remains the appropriate vehicle to deliver such a large lift in student numbers must be questioned. A more focussed program targeting China and India and incorporating more business input with the university and government sectors may pay dividends.

The infrastructure and human capital demands that such an ambitious program will require additional State government and private sector funds. The result of this investment will be to develop what the Western Australian Technology and Industry Advisory Council calls a 'global knowledge hub' defined as 'an integrated cluster of R&D activities, advanced educational programs and knowledge-based business services of sufficient scale and excellence to be recognised as a world

leader'.²⁰ Positioning Western Australia as a global knowledge hub through creating tertiary institutions with sufficient scale to be world-leading is an example of the multiple benefits to Western Australia from aggressively increasing overseas student numbers.

Western Australia already has obvious advantages in some disciplines, such as minerals and energy, environmental science and marine science. Fortuitously, all of these areas are priority areas for either or both of China and India.²¹ However, which areas are targeted must come from a collaborative effort by the universities, business, government and most particularly the demand from the overseas students themselves. Although planning and specialisation is required, there seems little point in, for example, targeting biotechnology in competition with Melbourne, Brisbane and Sydney who already have well-developed programs in this area, especially given the overt hostility to agricultural biotechnology adoption by the State Government to date.

Financing the massive expansion of the tertiary sector will require policy action and financial investment in a number of ways. These include additional housing, university infrastructure, support services, and marketing. The State Government has a key role to play in enabling this investment to happen. For example, the additional 50,000 students need to be housed, preferably close to their tertiary institutions, in decent, but cheap, accommodation. The State Government will need to ensure appropriate sites are zoned for this sort of housing. Similarly, these additional students will need inexpensive places to eat, to purchase entertainment and to shop, close to where they live or easily accessible by public transport. The State Government and local councils have a role in ensuring student-friendly hubs can occur, and again this will require town planning acting as an enabler rather than a blocker.

Past acting as an enabling body, the financial cost to Government can be relatively small. The universities will need seed money to get new programs up and running and perhaps to underwrite additional borrowings for new buildings. Loans and seed grants for these purposes can quite

Fashion and urban culture

As a quirky example of how inviting an additional 50,000 Asian students to Perth will enrich the city and create additional spinoffs, fashion is illustrative and perhaps surprising. Japan has been ramping up its cultural outputs for some time now and, along with the Hong Kong aesthetic, is becoming pivotal in defining an 'Asian style.' This style is recognized by mini-skirts with thigh high socks, bold prints, designer motif handbags and *kawaii* (cute) accessories. In cities with large Asian student populations it is becoming more common to see boutiques springing up that stock Japanese street wear; in turn this aesthetic is picked up by Australians of Asian descent and is also seeping out to

the broader community.²³ Concurrently, the absorption of this ultra-hip Asian aesthetic into a city adds to its global appeal as an interesting place to live and works to help attract and keep the sort of highly skilled creative people all cities are trying to draw.

With enough critical mass, Australian based designers are able to create their own Asian-influenced designs and sell them into Asia. So what begins as a few imported Hello Kitty accessories can end up creating a niche export industry and increasing the attraction of the city as a diverse and interesting destination for both tourists and sought-after workers.

properly be seen as government investing in the future growth of the State. There is no virtue in demanding such funding from Canberra as it is unlikely to be forthcoming—and timeliness rather than procrastination is of the essence. There are, however, other relatively low-cost actions the Western Australian government can take to gear up Perth to welcome these additional students.

Recent research on the experiences and attitudes of Indian students in Australia²² listed nine factors identified by Indian students as important to their choice of university. While reputation and ranking of the university was given as the most important factor, non academic reasons such as location of the university, the cultural diversity of Australia and financial considerations were also cited as important. This research also suggests Perth will be more successful in attracting Indian students by increasing the channels of information available to prospective students, via, for example, attending education fairs, supporting dedicated staff in India and sponsoring an effective web presence.

The State Government and the universities are not the only groups important to the success of the goal. Business, especially businesses currently engaged with China and India, have a clear motive in participating in making this ambitious goal achievable. Not only will Perth businesses gain additional skilled workers, as many graduates will take up the Federal Government's migration offer, these workers by definition will have the language and cultural knowledge to improve business outcomes in trading with China and India.

And there is much business can do to help. Initiatives such as industry placement programs designed to fit with the visa and study requirements of students, the creation of scholarships for outstanding but less well-off students, the endowment of professorial chairs, as well as more direct commercial relationships with the universities to build the buildings, house the students etc.

A student friendly Perth

As has been stressed in the introduction to this chapter, all the recommendations are designed to work together in making Perth a more vibrant and interesting city that throws off its 'dullsville' tag and refashions itself as a broad-based global city. This recommendation is particularly important in meeting these objectives and for enmeshing the city with its current major trading partners.

In a globally competitive marketplace for overseas students, lifestyle while studying is increasingly important. Perth has the beaches, the weather, the natural attractions and the scale to be very attractive to students from India and particularly China. However, students are also looking for affordable housing both as a student in a shared house, and later, if they choose to stay, in a family home. As section two detailed, Perth is failing to deliver affordable housing to current residents on above average household earnings, many overseas students were priced out of the accommodation market long ago.

There is no such thing as shop trading hours in China or India. Shops open to best suit the needs of customers and the idea of restrictions strikes many overseas visitors, not just students, as odd. However the mindset that continues to restrict shop trading hours (and stops the implementation of reformed liquor licensing laws) is alien to people from bustling, never closed cities. As section one described, there is considerable research indicating that the young 'creative class' expect flexibility so they can eat when they finish work late, or have a couple of drinks with friends without braving a beer barn. Many of the sort of people Perth should be attracting as overseas students share those attitudes.

Comparing Perth and Melbourne's overseas student web sites

Melbourne, under the auspices of the Department of Education, has developed a comprehensive web presence branded 'Study Melbourne' (www.studymelbourne.vic.gov.au). As part of the 'Perth Education City' program Perth has also created a web site (www.doir.wa.gov.au/PEC). Just the web addresses say something about the differing approaches, Melbourne has created a total branding experience that reaches down even to the URL branding while Perth has buried its site within a government department.

The sites look very different; Melbourne's homepage begins with a welcome and highlights student testimonials and the benefits of living and studying in Melbourne. It even suggests Melbourne has a great climate! It is very student driven and the majority of testimonials are from Asian students. Perth's homepage has an invitation from the Premier who highlights how desirable, affordable and safe Perth is. Further pages talk about the 'Perth Education City' concept rather than focussing on the information prospective students will want. Perth has a few testimonials too but only two from Asia.

Melbourne stresses the multicultural nature of the city, its food, fashion and parks as well as the strengths in science, IT and engineering. The site provides links to Tourism Victoria and the Melbourne City Council

tourism site and focuses on the student experience. Perth's site attempts to provide this sort of tourism information but seems to fall back in to asserting how inexpensive and cosmopolitan Perth is compared to other Australian cities.

Unfortunately Perth's site is badly out of date in some key respects. The Living Costs page states an overseas student would pay \$80 per week for rent and meals. A quick look at the online student accommodation boards shows advertisements for \$125–\$210 room only with meals extra. Similarly the Upcoming Events end at February 2007.

Overall Perth's site seems just as much about attracting east-coast students to Perth as it does about luring overseas students due to the constant comparisons with other Australian cities. Melbourne presents itself as a natural global player, with an edgy yet safe city, perfectly placed to offer international standard education within a community that overseas students will fit into. By contrast Perth's site is not student focussed, is out of date, and presents Perth as a cheaper destination, rather than a sophisticated, knowledge-based hub.

Economic benefits

A detailed survey of spending by overseas students found that those in Western Australia spent an average of \$476 per week on non-fee related spending.²⁴ On current enrolments, overseas students are therefore spending over \$15 million a week on housing, food, and other expenses. This figure is likely to be conservative given the dramatic increases in housing costs since the survey was undertaken in 2004. The total direct expenditure by overseas students in Western Australia, including course fees and living expenses is well over \$1 billion per year. The overall contribution to the economy is much greater.

An additional 50,000 overseas students, on the above expenditure figures, and assuming the students are only in Australia for nine months of the year, a conservative assumption, would spend about \$1 billion in just living expenses plus at least the same again on tuition fees. Therefore the direct expenditure in Western Australia would increase by over \$2 billion per annum and the indirect value a multiple of this amount.

A research hub

As the Vice Chancellor of the University of Western Australia has commented, universities need sufficient scale to compete in the international research ratings which in turn influence the attractiveness of the university to prospective students and academics.²⁵ Attracting additional students from India and China should be part of the development of universities of appropriate scale to bring in the world-class researchers needed. Having a critical mass of excellent university researchers, particularly clustered in academic disciplines that feed into high growth industries, should create a virtuous circle whereby their research is of use to Perth's industries or acts as a hub to attract new industries. Although the process is never as neat as this model predicts there are global precedents for research-intensive universities being the catalyst for whole industries developing in certain locations rather than others. Perhaps the most well known example is the proximity of Silicon Valley to Stanford University and the role that university has played in the development of the IT industry.²⁶

Social benefits

Perth has experienced different immigration patterns than Sydney and Melbourne: more from the UK and South Africa, less from Asia.²⁷ Some 87 per cent of Perth residents identify as having British or Australian ancestry compared to 70 per cent in Melbourne and 68 per cent in Sydney. Perth has more than double the proportion of living British migrants than Sydney, Melbourne or Brisbane.

This matters for a number of reasons. If Perth truly aspires to be a global destination city, diversity is important.²⁸ For example a consistent message from overseas students in Melbourne is that the fact that Melbourne is a multicultural city was important in their choice of destination.²⁹ As the global race to attract the best talent continues, young, highly educated workers are consistently demanding places where they feel they are accepted and a visibly multicultural city is part of the filtering process for these very attractive migrants and workers.

While many graduating overseas students will choose to return to their countries of birth, some will choose to settle in Western Australia. This is particularly true of students from India and China of whom a recent survey found 41 per cent of Indian and 29 per cent of Chinese students responded that they wanted to migrate to Australia at the completion of their studies.³⁰ Either way, Perth has much to gain from both those who stay and those who return home. Providing about 20,000 people a year (assuming an average three year course length) with a positive learning and living experience that they can then use to settle in Australia or to return home to a new career can deliver to Perth an army of ambassadors with deep links to the city and to their places of birth.

4. Creating Partnerships for Infrastructure

What Perth looks like—both the built environment as well as Perth's natural attractions—has been the source of much soul searching in the past couple of years. There is debate about the relative merits of the convention centre, the lack of development on the river foreshore and the Northbridge railway lines. Many people want to see statement buildings, new arts centres, galleries, museums and new stadiums. Few agree on what these should look like other than they should be world class and funded by government. Other people stress commercial solutions, adapting the lessons of Brisbane and Melbourne which reinvigorated their river frontages with largely private sector buildings and excellent urban design overlays from the planners.

Overarching all this is a realisation that Perth's built environment, at least as it refers to the CBD, is unappealing. Where are the architecturally significant buildings? Where, even, is the development of a distinctive Perth style?

There are appropriate roles for developers, government, business tenants and philanthropists in making Perth a city more in tune with its place as an aspiring world-class destination city and also with its environment and climate. Government has a clear role in town planning, in setting the rules for the purpose, scale and quality of precincts such as the foreshore and Northbridge. Others should have the role of delivering these projects.

The initiatives of FORM, a not for profit cultural as-

Figure 7: Melbourne recital centre and Melbourne Theatre Company Theatre Project



Source: Ashton Raggett McDougall, Melbourne Recital Centre and MTC Theatre Project, <http://www.a-r-m.com.au>

Figure 8: Paris street



sociation supported by industry, and its executive director Lynda Dorrington, in creating debate and providing a forum to enable discussions continue to be important in changing people's mindsets. It is clear that there is overwhelming agreement amongst Perth's business and cultural leaders that things need to change. It is also clear the projects (the river and Northbridge) identified by these leaders as important to Perth's future are just not going anywhere. It is well overdue that the government handed these projects over to the private sector along with an appropriate planning scheme to deliver a mixed use precinct for dining, shopping, working and living.

Cultural Venues

The tradition in Australia has been for government to largely fund cultural buildings such as theatres, art galleries and concert halls with philanthropic contributions playing a smaller role than in, for example, the US. However this is changing as governments look for solutions to the problems of equity raised when spending large amounts of money on venues that will be used by a relatively small and affluent section of the community when other priorities such as health and education remain pressing.

Innovative solutions that augment government funding include the current Victorian construction of a recital hall and small theatre being built with a combination of government money, money in lieu from Crown

Casino for not building a theatre it had promised to build, and \$21 million from private and other sources. Significantly, this building, built largely for chamber music, is being deliberately benchmarked against the world's greatest venues of that type. Aiming at that level is regarded as unremarkable by most people involved in the project. There is a view that if the city is going to embark on such a project the only option is to build it with world class acoustics and design, anything less would let down Melbourne audiences and would not position Melbourne as a destination for the world's best performers.

Perth should be similarly ambitious in attracting private philanthropy to build outstanding venues which meet the needs of its residents. Government and council need to be more proactive in offering ways to involve those who are now reaping the rewards of their work in WA's mining industry and are keen to donate part of their wealth to cultural projects. At present the paralysis over the foreshore and Northbridge developments offers no scope for a budding philanthropist to get involved in a project as there are no projects.

Moreover, the State Government and Perth City Council have clear leadership roles in facilitating public acceptance of new projects. Great architecture is often controversial. The Sydney Opera House, Paris's Pompidou Centre and Louvre pyramid and Barcelona's Guggenheim Museum all attracted scathing criticism. What philanthropist in their right mind would want to offer millions of dollars to help build an iconic building if a good proportion of the political leadership of the city and state pander to the most ill-informed criticism and allow their generosity to be pilloried? Leadership must include backing others boldness, especially if the outcome is of world class standard.

However the greatest imperative is for action. The time is well overdue for talking about these projects. Buck passing from all tiers of government and sniping from opposition of any spark of decision has doomed all previous attempts.

Footpaths, trees and rubbish bins

Perth residents have become so used to working around the oppressiveness of the climate before the Fremantle Doctor rolls in, that often just how unpleasant the city streets are in 40 degree heat is forgotten. The Hay Street Mall is unbearable for much of the day in summer; what limited trees there are in the malls remain spindly, isolated attempts to add some much needed shade into a concrete hot box. Paving is not uniform and many streets still have asphalt, despite its obvious unsuitability for the climate. Lighting varies from the round balls of the mall to the sort of ugly street lights designed in the 1970s.

Overall the CBD is a bad mismatch of third-rate fixtures and fittings, more at home in a down-at-heel country town than a prosperous city.

This matters. Great cities pay attention to their infrastructure. Paris is famous for its sidewalk cafes but underpinning those cafes is a consistency in the streetscape, large format bluestone paving on wide footpaths, a single design for bollards, heritage lighting, and rubbish bins with matching covers. All these things create the 'look' of Paris. Charles Landry zeroed in on why this matters:

take the fences at car parks, sports facilities or stations. They represent a miniscule amount in the total budget, but usually they disappoint and make you feel gloomy. ... The fine detail matters. It is often that last one per cent of expenditure that embellishes, communicates and provides that twist of beauty.³¹

Perth needs a total overhaul of the CBD look and feel. The city needs a master plan to remove all asphalt, plant many more trees, standardise lighting, rubbish bins, bollards etc. With Cathedral Square inching forward (as well as the eventual redevelopment of the foreshore and Northbridge railway lines) getting these micro settings right is timely and of arguably more importance to the general amenity and beauty of Perth than any new iconic building.

5. What's the 'next big thing' & should anyone be guessing?

The export of iron ore was banned when Lang Hancock discovered it in the Pilbara because of a common idea that mineral resources were scarce. Today it forms a large part of the wealth of Western Australia.

In the 1980's, when compulsory superannuation was introduced, the only policy aim was the provision of retire-

ment savings for workers. Fast forward 20 years and the unexpected spinoff was the creation of Australia as the fourth biggest funds management industry in the world.

The State Government of Western Australia has identified what it calls pillars for diversification beyond the boom: biotechnology, information and communications technology, marine and defence and renewable energies. Western Australia is not alone in attempting to back the next big thing, Queensland and Victoria both trumpet biotechnology, New South Wales and Victoria both back information and communications technology. The University of Melbourne has just announced the creation of an internationally recognised centre for marine and climate change backed with Federal Government money. Everyone seems to be behind renewable energy projects.

Identifying trends in export services is not an easy task as the data is grouped in unhelpful ways. However, the available data indicates Western Australia appears to be ignoring key strengths in engineering and mining services in its attempts to chase IT, biotechnology and renewable energy. Western Australia's existing strengths do however appear well suited to marine and defence engineering. Figure 9 displays the breakup of Western Australia's exports of high value-added business services. Sixty-nine per cent of Western Australia's exports of high value-added services come from engineering, mining and agriculture. Western Australia has strong Australian market shares in all these categories. By contrast Western Australia has only a seven per cent share of Australian exports of communications services and a poor two per cent share of computer and information services. Overall Western Australia has a seven per cent share of business services.

The market shares of the states have been remarkably consistent over time in communications and IT. These two industries are important export industries totalling some \$2 billion in 2006 but Western Australia has a long way to go to match the market leaders of NSW and Victoria.

Western Australia might be successful in develop-

Table 6: Share of exports, communications services, 2000-06

	2003	2004	2005	2006
NSW	35%	34%	33%	38%
VIC	24%	25%	24%	23%
QLD	17%	16%	17%	15%
WA	8%	8%	8%	7%

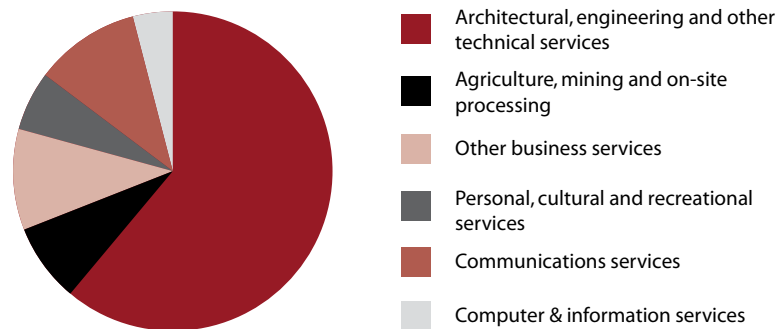
Source: ABS 5368.0.55.004

Table 7: Share of exports, computer & information services 2000-06

	2003	2004	2005	2006
NSW	77%	80%	70%	70%
VIC	16%	N/A	20%	21%
QLD	5%	5%	6%	6%
WA	N/A	N/A	1%	2%

Source: ABS 5368.0.55.004

Figure 9: Western Australia export of high value added business services, 2006



Source: ABS Cat. 5368.0.55.004

ing useful export industries in the four identified areas. Conversely, it might not. The lessons of iron ore and superannuation are instructive. Governments are not known for their business acumen. There is little historical precedent for government to pick winners successfully and countless examples globally of the opposite.

There are significant risks to getting it wrong. One risk is lost opportunity—the lost opportunity of the export driven, competitive industries that would have been developed had not people been focussed on the wrong thing. However the bigger risk is thinking it should be done at all. What needs to occur instead is a concerted effort to get the regulatory settings right for all industries, which, in tandem with delivering policies that keep Perth an attractive place to live for the broadest group of people possible, will deliver the innovation culture to drive the development of the ‘next big thing’.

Western Australia is already good at some of the things that can make this happen; State Government data is superior to many other states, allowing business, researchers, policy makers and government to make better informed decisions. Expanding availability and streamlining delivery across all departments will further improve the capacity of interested and knowledgeable people to input into the policy making process and to make business decisions grounded in fact.

Regulatory certainty and transparency remain of high importance to both existing and prospective businesses. Property rights so entrepreneurs can be certain of benefitting financially from their risk taking need to be re-examined. Furthermore, the delivery of administrative predictability, via known public processes that are consistently applied provides another layer of comfort for those risking capital. As the Productivity Commission notes ‘entrenching good process through procedural and institutional means is the key to better regulation’.³²

There are a number of reasons why it is particularly in the interest of Western Australia to drive the next round of the National Reform Agenda. The most pressing is the capacity of the total package of proposed reforms to make Australia the third richest country measured by GDP per capita.³³ Any leadership group which has the opportunity to deliver such a core benefit to their constituency is duty bound to embrace

it. Moreover, Western Australia is starting from behind, having failed to implement the lowest per centage of national completion policy reforms of any state. The chief executive of the WA CCI, John Langoulant described this failure as ‘successive Western Australian governments are seen to have lacked the ticker to bring in fundamental reforms to shed competition restrictions that are so quaint that nobody really knows why we had them in the first place.’³⁴

Beyond the National Reform Agenda there remains much Western Australia can do to best position itself as the place where new and profitable industries can take root. The current resources boom provides a unique opportunity to engage in some aggressive competitive federalism, cutting taxes, lifting regulatory burdens, increasing the skill base of the workforce and divesting assets better run by the private sector. All of these actions will have a greater impact on attracting new businesses and building on existing ones than attempting to take market share away from Sydney and Melbourne in existing industries.

There is much to be done to position Western Australia as a likely site for the ‘next big thing’ and to deliver increased and sustainable wealth from existing businesses. Politicians of all persuasions would be better to focus on getting the settings right than on trying to pick winners.

Conclusion

This chapter discusses five interlinked proposals that will enable Perth's transformation to global knowledge hub, while continuing to offer an enviable lifestyle for all residents.

1. Free up the day to day controls and limitations on people's lives; examples include deregulating shop trading hours, implementing the deregulation of liquor licensing, doubling the number of taxis.
2. Pay attention to implementing policies that deliver Perth's much vaunted lifestyle to anyone who tries to make a go of it. Prioritise affordable housing through more land releases and greatly improved infill planning approvals.
3. Create multi-faceted links with China and India that go beyond suppling raw materials. Direct State Government resources towards increasing the number of overseas tertiary students from China and India by 50,000. Enact housing and social policies that encourage many of these students to settle permanently in Perth at the completion of their degrees.
4. Use the windfall taxes flowing to State and Local Governments from the mining boom to renew and upgrade infrastructure; get the macro projects and the micro renewal both right but be careful of wasting money on projects better delivered through commercial or philanthropic means, for example sports stadia and cultural centres.
5. Guard against squandering the dividends of the boom on trying to pick the next big thing. Of more importance is to build an environment where unexpected things can happen and this requires a broad ranging innovation friendly regulatory environment.

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Chapter 4

**Reshaping the landscape:
the quiet erosion of property
rights in Western Australia**

Louise Staley

Introduction

Throughout Western Australia fundamental changes have occurred in the way private property rights are protected by law. The impact of these changes can be felt by home buyers struggling with excessive prices, farmers unable to profitably use the land and water they own, and miners increasingly hamstrung by land being locked away in conservation parks and reserves. Together they amount to a gradual, but significant erosion of traditional protections for private property rights.

This chapter brings together what may appear on first notice to be unconnected regulatory intrusions into an exposition of the underlying diminution of property rights they all share. In turn, the Western Australian examples are contextualised within a broader discussion of the importance and nature of property rights, with special emphasis on the link between robust property rights and income. In summary, the chapter argues that Western Australia has embarked on a risky path that is already resulting in negative outcomes.

Farming

‘Farmer Jim is thinking of felling one of the 20,000 trees on his property for fence posts. He has used up his 30 tree (0.15 per cent) exemption. He looks at one of the 19,970 remaining trees. He has to consider: what slope it is on; whether it is a rare species; whether it has any hollows or is on the way to having hollows; what native animals or birds are feeding off it or are likely to do so; what effect it has on the forest canopy; whether it is near a stream; whether it is of aboriginal significance; etc., etc. Then he will be in a position to make a lengthy submission to government seeking permission to fell’.¹

The operation of the various environmental protection laws, but especially the *Western Australian Environmental Protection Act* (1986) as amended in 2004, is increasingly restricting the capacity of farmers to farm their own land. One particular aspect of the Environment Protection Act, the manner in which farming land is assessed for its environmental value, is critically flawed. Under current processes, the government sets regional principles of assessment and then assesses farming land in the region against those principles. Once assessed, any patches of native vegetation or wetlands are in effect ceded to the state since no development can then occur on them. Affected farmers can only appeal on the question of whether the assessment meets the regional principles. However, the consultation process only starts after the regional principles are adopted so farmers have no capacity to even know what the principles of assessment are until it is too

late to change them. The WA Property Rights Association (WAPRA) and others have documented many instances of virtually entire farms being assessed as having high conservation value, and therefore unable to be farmed. Cruelly for the farmer, in almost every case the existence of the high conservation value area is as a result of the farmer voluntarily fencing off wetlands, planting trees and retaining hollow trees for habitat. In other words, the habitat has been reintroduced by the farmer’s actions and at the farmer’s cost, yet the result is the loss of control over that part of the land for no compensation.

When the Productivity Commission reviewed the national impact of native vegetation and biodiversity regulations, it found that the current approach is placing heavy burdens on landholders without compensation. Furthermore, the commission noted that ‘nor does regulation appear to have been particularly effective in achieving environmental goals—in some situations, it seems to have been counter-productive’.³

A major source of disagreement is the conservation value of swamps, river flats and bogs, now called wetlands. Once land is designated as wetlands it cannot be grazed or otherwise used productively, despite the fact that in many cases the land is often very fertile and good for grazing, and has been used this way for decades. In other cases⁴, private land on hills and nowhere near water is classified as wetlands, while nearby lower ground in public ownership is not. Apart from definitional issues over what is a wetland, there are additional problems created by the 200 metre wide buffer zones required around some designated wetlands. Depending on topography and property lines, the combination of wetlands and buffer zones can render entire properties legally unusable.

In all cases the problem is not so much that land is taken out of production—often that is the only way to preserve high conservation areas—but that it is done so with no recourse and no compensation. As farmers continue to hold title to the land no compensation measures are triggered. In extreme cases, ‘conservation covenants’ can mandate maintenance and even improvements of conservation or landscape values, all without compensation.

Housing Affordability

Housing in Perth is widely regarded as too expensive⁵ and the cause is lack of supply.⁶ Successive government policies have attempted to increase infill development at the expense of the new housing on the edge but have generally only been successful in limiting green fields development rather than also increasing infill consolidation. Many have argued that the whole premise of forcing infill is movement in the wrong direction as many families seek to own

their own home, built to their specifications, in an area with other families doing the same thing. However, it is not necessary to have a preference for either infill or edge development to understand that lack of supply is the clear cause of house prices being so high that a family needs to earn one and a half times average earnings to buy a house.

Moreover, in Perth, land shortages cannot be blamed for the lack of supply. The city has ample land that is currently being used for agriculture that could rapidly be developed for housing. Instead, the cause of land shortages is planning policies, as well as taxes and charges that have resulted in a piece of land with planning permission being worth 100 times what the same piece of land is worth without the permission to build. At the same time, property owners with land adjacent to Perth, but not designated as useable for housing, are unable to use their land for its best use, which is to subdivide it for housing. So while the current system delivers huge windfall profits to those fortunate enough to own property that receives subdivision approval, other owners receive nothing, the end buyers pay well over the unrestricted price and many others are denied the choice to buy a house at all because they are all priced out of reach.

The distortion of Western Australia's property markets through the design and implementation of the planning system has occurred over a long period. Western Australia was the first state to pass a planning act in 1928 (after thirteen years of argument before it passed through parliament). The scope of the planning scheme has continuously expanded to the current point where even the most minor alterations and additions require planning permission. Each of these rules reduces the right of owners to use their property as they wish and are therefore a diminution of property rights. It is not feasible to repeal all this legislation as too many investment decisions have been made on the basis of it. However, the deficiencies of the approach are manifest and growing.

In more recent times, the introduction of conservation schemes such as Bush Forever, Conservation Wetland Buffer Zones and Biodiversity Reserves, are removing from future development large tracts of land in attractive development areas. For example in the south west corridor some 26,000 Hectares are now locked away in these reservations⁷. While ensuring areas of high conservation value are not lost forever due to inappropriate development, it is becoming increasingly evident that these schemes are in some instances being deliberately used to limit the ability of landholders to provide more lots for housing rather than primarily for conservation.

Mining

Throughout history, mining has been a focal industry for the formal and informal allocation and management of

property rights. During the Californian gold rush, miners set up their own registry of titles and set their own rules for claim size and operation. In the absence of a functioning state, the miners developed a set of rules which worked so effectively that a miner could leave his marked claim for days to get supplies and return to not only find the claim untouched,⁸ but also his valuable tools untouched. The story of the Ballarat miners and their revolt against excessive taxation and other infringements on their rights to mine is iconic to generations of Australians.⁹

As the major driver of economic prosperity in Western Australia, it is of utmost importance that exploration and development of new ore bodies is not stymied by archaic or intrusive regulation. Two unrelated problems highlight some of the issues facing mining that are caused by a failure to properly take account of property rights.

The first is the operation of the WA Warden's Court, or more specifically, the failure of successive Western Australian governments to properly resource the Wardens' Court and to reform its operation. The Warden's Court hears matters relating to mining tenement applications, objections and forfeiture, as well as civil matters related to mining. It is unusual in a number of respects. Firstly, it has both administrative and judicial functions,¹⁰ and the administrative functions are enabled through wardens making recommendations to the Mining Minister; or an odd arrangement that has the potential to compromise the independence of the court. Secondly, there is no right of appeal for many of the types of decisions wardens make. This has led to the use of judicial review in the form of prerogative writs of decisions. Such review can only be on the technical question as to whether the court has acted outside its jurisdiction, not on the merits of the case. Lastly, although a section of the Magistrates Court, the Court of Wardens has the right to rule on matters worth hundreds of millions of dollars, amounts more usually seen in much higher courts.

Apart from an antiquated and arguably defective structure, the Court also suffers from the problem of resourcing. Wardens are also Magistrates, and the operation of the Warden's Court takes a secondary position to the needs of the Magistrates Court. In practice, this means the Warden's Court may only sit for one day a month, making it impossible to get consecutive hearing days and dragging out cases over years.¹¹ In February 2007 the backlog of mining tenement applications peaked at 18,700 yet, it was not until August that a small amount of additional funding was announced.¹²

The effect of the deficiencies of the Warden's Court is to create uncertainty over mining claims. Without a settled title to a claim miners are unable to raise capital to get their project off the ground. This has particularly harsh effects for junior miners without other projects that can be used as collateral.

Another current problem for miners is the classification of former pastoral leases as conservation parks. In September 2007, the State Government announced the conversion of a further 5.5 million hectares of pastoral leases to parks and nature reserves. While conservation park status does not ban mining or exploration, it changes the default position to no mining which then has to be appealed to the minister on a case by case basis.¹³ In practice, this means that existing mining operations are allowed to continue while new exploration and undeveloped tenements face additional hurdles. The Environmental Protection Authority (EPA) is open in pursuing this approach to restrict further mining in areas already being mined, such as Portland Mining's operations in the Mount Manning region.¹⁴ In a similar case, centred on Mount Gibson, the project was allowed to proceed, but only after 32 appeals against EPA decisions were successful.¹⁵

Both the Minister for Mining and the EPA have been criticised by Ian Loftus of the Association of Mining & Exploration Companies for constantly changing the rules:

'For example, Cazaly Resources had a tenement ... but the government took it off them. The Mid-West Corporation had an agreement, which they used to raise capital, but the Minister wrote to Mid-West and told them they were going to get rid of it. ... There's 1200 separate mining tenements on that land and each one of those tenements is jeopardized by government extending the conservation area.'¹⁶

For miners, the classification of mineral rich land as a conservation park after it has been pegged for mining is a clear change in the value of the land. While the resource under the ground remains the same, the cost of extracting the resource has increased due to the additional processes and appeals required. The right to use the land is diminished. This could be of a net value if the conservation value of the land is such that its preservation outweighs the additional costs. However, in the current case the land is former pastoral leases with only very small plots with high conservation value. The lack of real conservation value is demonstrated by the overturning on appeal of every case appealed against. However, this process is costly and time consuming, and often outside the capacity of small companies to undertake.

The boom in mining and exploration in Western Australia is obscuring the real problems the industry is facing, as the government fails to consider the impact on new projects and the attractiveness of the state for additional investment, by the persistent curtailment of property rights in the mining industry. The situation where land of low conservation value is designated as a park, thereby adding additional layers of complexity to attempts to mine it, but not actually stopping mines, seems to have lit-

tle logic. If areas of high conservation, as determined by scientific experts, were locked away from mining but the rest was allowed, more land would be conserved, as the mining industry would concentrate on the vast areas permitted, rather than the current situation where everything is targeted as high and low conservation is not properly designated. This is another case of the poor application of the principles of property rights leading to both poor environmental outcomes and poor commercial ones.

Why Property Rights Matter

It is a mistake, often made by those ambivalent or opposed to capitalism, to equate property rights with financial gain; as though the importance placed on strong property rights is a smokescreen to obscure the interests of the rich elites. Yet such a reading is profoundly wrong. Instead, a system of strong property rights offers the greatest benefits to the poorest members of society and is the foundation of a free society.

Hernando de Soto, a Peruvian economist, tells the story of some consulting he did in Indonesia. De Soto noticed when he walked through the rice fields a different dog would bark as he entered each property. The rice farmers had to rely on barking (and biting) dogs for protection because they held no legal title to the land. Compared to a system based on records, titles and shares, dogs, fences and guards are expensive and inefficient methods of protecting the land and crops.

As de Soto notes, 'with titles, shares and property laws, people could suddenly go beyond looking at their assets as they are (houses used for shelter) to thinking about what they could be (security for credit to start or expand a business)'.¹⁷ It is this fundamental change from forcibly defending occupation to a legal right that forms the basis for the capitalist system. Property rights are therefore not only about ownership, they are the basis of credit, banking and entrepreneurship. Indeed, property rights are the basis of a free society.

As Gerry Eckhoff, the former New Zealand MP said, 'our property rights are almost subliminally recognised by the public, banks and commerce. Most importantly, they are a legally enforceable transaction. This legal system is hidden deep within the property rights concept. It's this system that allows us to transform ourselves from mere squatters to landowners, or perhaps more correctly, right owners'.¹⁸

Unfortunately, it is the very fact that property rights are the foundation, rather than the parapet, of the legal system and free society that often obscures their role and makes easy their erosion.

Property Rights and Income

The twentieth century saw many experiments in the effects of the total removal of property rights. Despite the common result of these experiments—totalitarian states with recurring widespread hunger and depredation—a number of states continue to forcibly remove property from groups they are opposed to.

However, totalitarian states are not alone in restricting property rights. All modern states restrict the property rights of their citizens to some degree. And we can demonstrate a link between the level of protection a state gives property rights and the level of poverty in that state. The 2007 International Property Rights Index measured the strength of property rights against a wide range of indicators and found a strong correlation between property rights and income.

The clear causal relationship between strong property rights and income has important lessons for developed societies. Property rights deliver the foundations of the wealth enjoyed in developed societies. If such societies are to continue to prosper, close attention must be paid to maintaining robust protections of property rights.

What Rights are Property Rights?

Property rights are not a single, unitary right, but a bundle of rights relating to property ownership. They include the right to own property, the right to dispose of property and the right to exclude others (also known as the right to ‘enjoy’). Another way of looking at property rights is to think of them as the right to control property (by stopping anyone else acting against your wishes) and the right to title (the reasonable belief that others understand it is yours to control, even when you are not in possession).

Contemporary property rights mean owners have the right to obtain economic benefits from their property, whether by using it, renting it out or selling it. The extent to which these rights exist is a product of the existing law supported by social customs. The limit of ownership, that

The Right to Trade Property: Abu Dhabi

As neighbouring Dubai boomed, Abu Dhabi stagnated. Despite Abu Dhabi sitting on the most oil in the world, little of the wealth generated was invested back into development as the oil barons preferred to buy property in Western capitals where they knew it could be resold.

There was no private property ownership in Abu Dhabi, the capital of the United Arab Emirates (UAE) before August 2005, when UAE nationals were permitted to own land and land registration was created. And until February 2007, foreigners were banned from owning property in Abu Dhabi. Then, in a further relaxation of the law, the President allowed foreigners to own buildings (but not land) in specified investment areas. Further, non-UAE nationals were permitted to lease land on 99 year leases.

Prior to the land reforms, all attempts to diversify the economy from oil failed dismally, and little new building was undertaken. The results of creating property rights have been spectacular and immediate. Just one of the multiple projects currently being built ‘will feature 36 mixed-use towers, two shopping malls, two mosques, and a five-star hotel. On Al Reem Island, Shams Abu Dhabi will have a canal system like Venice’s, a central park like New York City’s, and an 83-story skyscraper’.¹⁹ Already opened is a US\$3 billion hotel, where basic rooms cost US\$1,000 a night and the city has now attracted the first branch of the Louvre.



is, what owners can and cannot do with their property has always been circumscribed. Nevertheless, traditionally the limitations placed on property owners were intended to overcome obvious problems that impacted either neighbours or the wider society. For example, hunting every bird and animal until none remain has been banned by regulation for over 1,000 years.²⁰ However, what constitutes fair use of private property, and which externalities the society has the right to intervene with are challenging problems. In recent years the level of regulation of property has escalated, often stripping owners’ rights unfairly to the extent that, for many property owners, a substantial part of the value of their investment has been destroyed.

Everyday, every Western Australian makes decisions only possible because of property rights. Yet, often the link between security of general property rights, and security for the ones a particular individual exercises is not made clearly. As a result, the first home buyers getting their first mortgage are unlikely to ever consider the role their security of title plays in their ability to get a mortgage. Moreover those same first home owners are even less likely to link their property rights to that of a mining company or a farmer. Yet, if the government alters the rights of one group, perhaps because they are relatively small in number, then it can reduce the rights of all.

What the Erosion of Property Rights Looks Like

As recently as 1962, the High Court of Australia held that landowners possessed the 'proprietary right to subdivide without approval'.²² Western Australia has changed a great deal since then. Now, only tracts of land zoned for housing may be subdivided and there are additional highly prescriptive rules governing the number of blocks per hectare, local and regional open space set-asides²³ and, increasingly, requirements for the provision of other services to the subdivided blocks. Compared to this labyrinth of planning law in operation nowadays, the idea a property owner could subdivide at will is remarkable. With the clear relationship between Perth's unaffordable housing and lack of supply of new housing lots²⁴ the effects of placing such high barriers to subdivision are painfully obvious.

How Western Australia went from no restrictions on subdivision, to a situation where neither the farmer

Table 1: Strength of Property Rights & Relationship to GDP

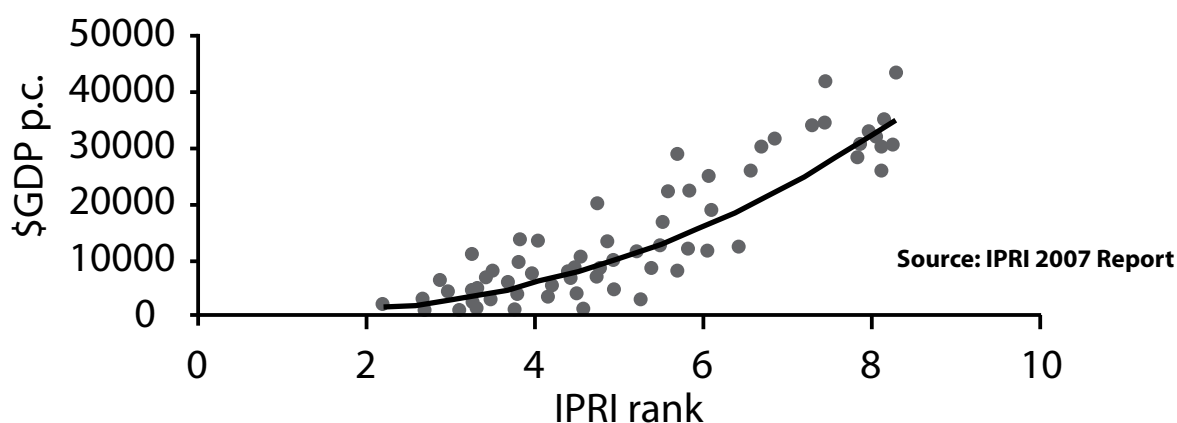
IPRI quartile	Ave. GDP per capita
Top 25 per cent	\$32,994
2nd quartile	\$15,679
3rd quartile	\$7,665
Bottom 25 per cent	\$4,294

Source: IPRI 2007 Report, p. 31

who tries to sell off a surplus house nor the suburbanite wanting to subdivide her quarter acre block can do so without intricate planning permission to subdivide, was not a single event. Similarly, the rise of heritage legislation and council rules has been a disjointed set of fits and starts, often in response to an egregious act. Little by little, what seem to be reasonable restrictions to stop someone pulling down an important building, or to stop a five story strata titled block of flats on a suburban block, or to stop a farmer obliterating the last remnant of forest to install an irrigation system, are added to the statute books.

Most people believe themselves to be personally unaffected by each encroachment and may even agree that old buildings should be preserved, or flats should not be built in suburbs with predominately detached housing or, that native vegetation should be protected. For many people, citizens and legislators alike, the first response is to ban whatever the perceived problem is. However, that approach inevitably results in a diminution of all property rights because every time a new restriction is enacted without compensation the door is left open for further encroachments.

Chart 1: International Property Rights Index and Gross Domestic Product per capita



These regulations are not costless. The value of people's and firms' wealth is reduced every time a new regulation is passed which restricts the ability of property owners to use their property to the best advantage. For example, the introduction of height restrictions in an area, perhaps as a result of a particularly large building being proposed against existing residents' wishes, takes away the capacity of all property owners to redevelop their property as multi-story flats. However, when there have been only few of these laws passed without affecting that many people, both bureaucrats and the general public forget about the private costs, and focus on the supposed public benefit.²⁷

Paradoxically, the cheapest, most effective and fairest way to deliver the outcomes being mandated in much of the pernicious creep of takings perpetrated by all levels of government against property owners is to strengthen property rights. As the example of Celebration, Florida showed, with strong property rights, an outcome desired by a community can be delivered in a way that adds value to the entire community. The key is a legal structure that allows investors to buy property with its uses clearly defined and incorporated into the price. Moreover, when community attitudes change so that previously accepted practices are no longer supported, for example demolishing very old buildings, then the community can achieve their new goals through appropriate financial payments to existing owners to comply with new restrictions.

The Right to Enjoy: Celebration, Florida

Property rights are often voluntarily forfeited by aspiring homeowners in 'gated communities'.

The town of Celebration in Florida is a planned community constructed by the Disney Corporation. Through the use of covenants, easements and servitudes, a set of rules property owners must abide by have been created that restrict what all owners can do with their properties. There are limitations on house styles, colours, fences, outside blind styles and a myriad of other requirements. House prices in Celebration are higher than comparable suburbs without the restrictions.

What does a themed community where people voluntarily restrict their own rights have to do with the right to enjoy? At Celebration, home owners gain the guarantee of their aesthetic preference. In other words, people who buy there like the style and are prepared to pay extra to make sure all their neighbours like it too.

As Andrew Morriss, a law professor at the University of Illinois, said 'Celebration increased the value of the bundle of rights each person purchased because it added rights worth more (the ability to prevent an aesthetic disaster down the street) than it took away (the ability to create one's own aesthetic disaster)'.²¹

The legal instruments of covenants and easements are the enforcement mechanisms when something goes wrong. However, they are rarely used. The market mechanism of higher prices for these houses results in only people attracted to the rules buying there. It is a virtuous circle of additional value created by codifying the right to enjoy.



Compulsory Acquisition: Susette Kelo and Graham Hardie



In 1996, Susette Kelo, a nurse and recently divorced mother of five, moved back to the town she grew up in. Ms Kelo bought and renovated an 1893 cottage on East Street, Fort Trumbell. The daughter of factory workers, Ms Kelo describes herself as 'about as ordinary as you can get'. However, she has ended up as the public face of eminent domain—the name used in the US for compulsory acquisition of property.

Her small pink house became the centre of a string of law suits, which went all the way to the US Supreme Court, arguing over whether the city council could compulsorily acquire her property to sell to a private developer as part of a plan to revitalise the area. Unlike Australia, where property has always been able to be compulsorily acquired by the state (including local government) for any purpose, in the US, governments were limited to only compulsorily acquiring property for public purposes. The argument in the Kelo case was over whether compulsory acquisition for private purposes that would result in higher economic activity and taxes paid was legitimate. In a highly controversial decision the Supreme Court split 5 to 4 against Susette Kelo, forcing her to move.²⁵

In 1986, ten years before Susette Kelo was buying her cottage, Graham Hardie started putting together his property on the corner of Roe and Lake Streets, Northbridge. At the time Northbridge was pretty down at heel, a rough and often dangerous place to be, especially at night. Now, of course, Northbridge is the thriving and increasingly fashionable entertainment, dining and residential neighbourhood with a prime position close to Perth's CBD. And Mr Hardie has spent the past six years developing plans to further enhance Northbridge with a mixed use residential and shopping complex.

In late 2006, the Western Australian State Government announced that it was compulsorily acquiring Mr Hardie's land to build a police complex, Magistrate's Court and watch house.²⁶ The announcement bought strong condemnation from many Perth leaders including the City Council, the Property Council and the WA Chamber of Commerce and Industry. However, there was no possibility of a legal challenge because there are no limitations in Australia over compulsory acquisition, and anyway, the police complex was clearly for a public purpose, even though it was clearly not the best use of the site. The public pressure was effective; in July 2007 the State Government backed down and announced it would locate the police complex on government land in Northbridge.

Despite the differing outcomes and purposes for which the compulsorily acquired land was to be put, the cases share one profound similarity; the ease with which elected officials and their bureaucrats decided that the best outcome was to compulsorily acquire land. In both cases other options could have been pursued. In the Kelo case, many of her neighbours were pleased to sell their properties to the council, but her house and other objectors were close to the edge of the site where development could have occurred without forcing her to move. In the Hardie case, the WA government owned hectares of land in and around Northbridge suitable for the police complex, a fact confirmed by the eventual location of the complex on government land.

Public opinion towards both decisions was overwhelmingly negative; in the US the Kelo decision has proved so unpopular that most states have subsequently changed their constitutions or enacted laws to stop it happening again. In Perth, the government backed down, thereby taking the immediate heat out of the call for law reform.



State in the Protection of Property Rights

Westminster tradition, King John's 1215 acceptance of his baron's demands to restore the properties he had confiscated, is remembered as the historic beginnings of limits to capricious action by the Crown. From this period also comes another key milestone in the development of property rights, the doctrine of due process.

The promise by the English crown that no free man shall be deprived of his life, liberty or property subject to the law of the land is one of only three clauses of Magna Carta still in legal force in the UK.

'No Freeman shall be taken or imprisoned, or be disseised of his Freehold, or Liberties, or free Customs, or be outlawed, or exiled, or any other wise destroyed; nor will We not pass upon him, nor condemn him, but by lawful judgment of his Peers, or by the Law of the Land'.²³

The two restraints agreed to by King John, namely that the crown cannot grab private property without compensation and that all people are entitled to be judged by the law of the land, were instrumental in the development of property rights. Together they form a strong defence for the weak against the strong. In the first case, the protection is against the strongest of all, the crown or government, and in the second against more powerful citizens.

Over time a coherent and large body of law grew up in England which enshrined and explicated the fundamental principles of property rights. In the succeeding centuries since Magna Carta protection of property rights became more entwined with ideas of individual liberty and limited government. Later other countries such as the US and Australia inherited these same traditions. In the US, for example, the 1788 Constitution referred to the people's 'rights as Englishmen' which predominately meant a continuation of English property rights.

The US has been at the forefront of codifying law to protect property rights as fundamental to the protection of individual liberty. Perhaps most notable amongst these codifications is the Fifth Amendment to the Constitution which directly echoes clause 29 of Magna Carta.

'No person shall ... be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation'.

The Australian Constitution echoes these sentiments when it restricts the Federal Parliament to only acquiring property when compensation is paid.

'The Parliament shall, subject to this Constitution, have power to make laws for the peace, order, and

good government of the Commonwealth with respect to ... the acquisition of property on just terms from any State or person for any purpose in respect of which the Parliament has power to make laws'.²⁹

However, as this chapter will argue, the effectiveness of this provision has been limited by High Court interpretations. In addition, no other level of government in Australia has this restriction on its actions.

Controlling the Crown

'In the free and open society, the organized force of government is to be used only if necessary to protect the lives and property of peaceful individuals.' Paul L. Poirot

Without specific controls, the State, as the most powerful entity in society, has the capacity to behave both capriciously and excessively. As the International Property Rights Index shows, such actions reduce the wealth of the entire society as well as being highly correlated with human rights abuses.

In Australia, despite there being no Constitutional bar to states and local councils totally expropriating property without paying compensation, this is not the most pressing problem. Conventions exist such that governments pay compensation, although the basis and amount of that compensation is often disputed. For example, it is common for property being compulsorily acquired to be valued at its current use even if the land has the potential to be put to a much higher value use. This becomes especially problematic when government is proposing an urban renewal project on a blighted site. However, total expropriation, to the extent that title is extinguished, is not necessary to destroy value. None of the examples in this chapter involve the state taking all rights to a property without compensation. However, to concentrate only on that type of case is to miss the much more prevalent effect of government regulation reducing property owner's rights while still leaving her name on the title. Moreover, the amount and determination of compensation payable, even in cases of total expropriation, are also key issues which need urgent reform.

The legal basis for property rights is of utmost importance in societies built on the rule of law. However, in the classical liberal tradition property rights are natural rights which exist independently of the law. This is perhaps best enunciated by Frederic Bastiat,

'Life, liberty, and property do not exist because men have made laws. On the contrary, it was the fact that life, liberty, and property existed beforehand that caused men to make laws in the first place'.³⁰

In Australia, the High Court has moved away from the notion of deep or fundamental rights and has done so specifically in relation to property rights. The court has held that in the matter of compensation for expropriation, governments are completely entitled to legislate the amount of compensation even if it is manifestly inadequate. In a recent speech Justice Michael Kirby went to some lengths to explain the court's current position and to contrast it to other legal systems operating in the Westminster tradition. It is worth quoting him at some length to better understand how the court now embraces a strict interpretation of the constitution and rejects the doctrines of common law as this has profound implications for persons and companies seeking any remedy against state and local government laws.

'Further cases, decided in Australia in 2004, may be mentioned to show the current approach of the High Court of Australia to "deep" or "fundamental" rights lying outside the Australian constitutional text. They are, I will suggest, discouraging to the notion that the law, and the judiciary, will hasten to the assistance of people where their "deep" or "fundamental" rights are denied.

Although sometimes judicial relief is given, it is a comparatively rare event. Far from embracing Lord Cooke's concept about inalienable fundamental or "deep" rights, the trend of decisions in Australia at least, must now be seen as generally unhelpful to such protection. This is so whether by way of elaboration of the constitutional text or by invoking the doctrines of the common law'.³¹

In practice, what this means is that the court will not provide protection to those who find themselves fighting against an unjust determination of compensation for the loss of their property. Nor is it likely to accept an attempt to argue that legislation which in practice removes rights, but in letter retains title, makes its victims entitled to compensation unless the legislation explicitly allows for compensation.

With the High Court effectively dealing itself out of traditional property rights disputes, the only avenue left to remedy the problem of regulatory takings spiralling out of control is through amending the Western Australian Constitution to mandate compensation at the rate of best use for land owners when land use restrictions reduce the value of their property by excision of existing rights or when the government wants to compulsorily acquire property.

Reform Agenda Principles

The scope and size of the regulation affecting property owners allocates substantial powers to quite junior bureaucrats who may interpret the same provision in different ways. Particularly problematic are differences across local government in the interpretation of heritage laws and inadequacies in the number and specialisation of magistrates sitting in WA's Wardens Court of mining disputes.³² Similarly, some farmers have faced inordinate delays in receiving answers to applications in relation to clearing native vegetation, and inconsistent advice through the process. Lastly, accusations of favouritism and even corruption continue to bedevil a small number of councils in relation to development approvals.

The growing arbitrary nature of much of the administration of laws which impugn property rights is a problem in itself and one not easily remedied by more or different regulation. Similarly, piecemeal reform to attempt to address a particular problem is an inadequate response to a systemic problem.

This chapter recommends the adoption of a system based on four principles: compensation, consistency, openness, and right of appeal.

Compensation

At a minimum the WA constitution should be amended to match that of the Federal constitution to pay just compensation when property is taken from private landholders by the government. However, regulation often reduces the value of property without actually changing title, so the law needs to go further. An appropriate protection for property owners would be legislation with constitutional effect which requires the state to compensate land owners when land use restrictions reduce the value of their property by excision of existing rights.

Such a measure would have the added blessing of providing a financial incentive that it does not now have to the government to prioritise its heritage, environmental and water use goals, concentrating on the most important.

Consistency

All existing legislation needs to be reviewed to introduce consistency for how landholders are treated by all levels of government. The review will need to include planning laws, water entitlements and use, mining tenement law and its administration, native vegetation laws and any other aspect of Western Australian law which affects private property ownership and use.

Legislation arising from such a review will;

1. require all state government departments and local government to apply a uniform process to detail any actual harm or public nuisance that proposed regulations are designed to stop or prevent, the extent to which they affect private property owners, and whether the goals of the proposed regulations can be achieved using less prescriptive means, such as voluntary programs,
2. introduce mandatory benefit-cost analysis of proposed regulation using a standardised framework across government which values economic, environmental and, where possible, social benefits and costs from proposed property regulation. No legislation is to be enacted without the results of such analysis being made public for an adequate time period,
3. prohibit state and local governments from using their compulsory acquisition powers to expropriate private property for private development in order to generate more tax revenue, and,
4. prohibit non-legislative policies which have the effect of placing restrictions over the use of private property. All limitations on private property must be legislative and open to usual accountability mechanisms. Property owners who believe non-legislated mechanisms are adversely affecting them should have access to appeal mechanisms.

Openness

All government agencies, including statutory authorities, must be required to contribute to a central database, operated by the Valuer General, of any covenants, heritage listings, environmental restrictions or other listings which place restrictions on individual properties, including heritage overlays of entire suburbs. Land-owners and potential purchasers must, at a minimum, be able to easily, and at low cost, discover what they can and cannot do to their own property.

Right of Appeal

Establish a Private Property Tribunal to rule on the reasonableness of compensation paid by government to private property owners when their property is expropriated or devalued due to restrictions.

Conclusion

Western Australia has the natural resources to deliver an enviable standard of living for all its citizens. The current economic conditions are such that sub-optimal policies, which demonstrably destroy wealth, are obscured by the extraordinary growth from the mining boom. This chapter has concentrated on three areas where the erosion of property rights are affecting either large numbers of people, viz housing affordability or important export industries, namely mining and agriculture. However, the erosion of property rights, and the concurrent rise of regulation as the first option to address a perceived problem, can be identified in many other areas. For example, heritage listings that place all the costs and restrictions on existing property owners supposedly to benefit the aesthetic preferences of society. Another example is the continuing vexed problem of how native title is constructed; bring few benefits and certainties to aboriginal people while simultaneously limiting investment over vast tracts of land.

These examples share a reduction in the rights accorded to property owners, often in the name of promoting community values such as heritage and environmental conservation. Paradoxically, by using punitive regulations which bring no benefit to existing owners, often the results of regulation are the complete opposite of the intention; for example, when a listed heritage building is allowed to decay until it is condemned or a farmer refuses to plant a single tree for fear of a future assessment of conservation value.

The development of property rights has a long and important history. The evidence is irrefutable that the protection of property rights is the key to wealth accumulation and secure and stable societies. Western Australia has the capacity to better protect its future prosperity, and to enhance it by implementing a much stronger protection of private property rights than now exists.

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Chapter 5

**Top of the class:
Making the most of Western
Australia's school system**

Matthew Ryan

Introduction

The state of our schools is one of our hottest policy issues—not just for Western Australia but right around the developed world.

The reasons why can be found in analysis that began in the 1990s at the rich world's think tank: the Organisation for Economic Cooperation and Development (OECD). The OECD set out to identify the ultimate drivers of economic growth¹ and, thanks to careful analysis of a new database, schools were found to be much more important for economic growth than previously thought. Each extra year of schooling was found to boost GDP by about 6 per cent.² More recently, researchers at the Australian National University have used the data revealed by 'natural experiments' (such as WA's decision to lift its school leaving age to 15 years in 1966) to estimate the return on education at a significant 10 per cent.³

Higher levels of schooling boost economic activity in two ways. First, higher levels of education are strongly linked to higher levels of worker productivity (and higher wages). Second, higher levels of education are linked to higher levels of workforce participation (especially in older workers nearing retirement age). Of course, high levels of schooling are not for everyone—better trades skills are also an important education priority. In 2007,

work began in WA on cutting 'red tape' and streamlining processes for apprenticeships and traineeships.⁴

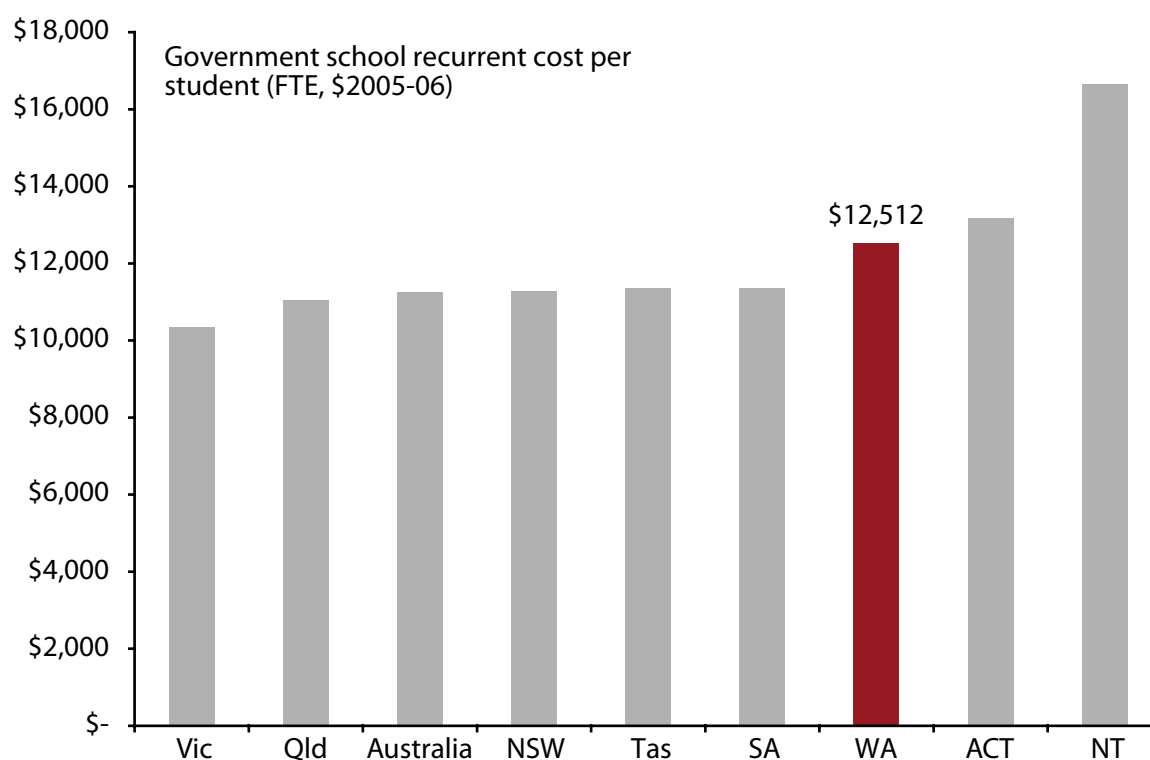
The Australian government's Intergenerational Report (first published in 2002) confronted the problems of an ageing population.⁵ The Australian Treasury promoted a policy outlook for the Australian economy which focussed on the 'three Ps' of productivity, participation and population.

In 2006, the Victorian government succeeded in convincing other Australian governments to adopt a 'third wave'⁶ of national reforms which 'would be based on an overarching theme of enhancing productivity and participation, with human capital as a key component'.⁷ With the recent election of the Rudd government and its commitment to an 'education revolution', those third wave education reforms are likely to be reinvigorated, after having largely stalled in the run-up to the federal election.

The focus of the national education reforms has been early childhood education, lifelong learning, youth moving from school into the workforce and student achievement in literacy and numeracy. In the face of such a large national agenda, the focus of this chapter is mainly on schools and student achievement.

Schools are one of the 'big ticket' items for governments. About \$3.6 billion was spent by all levels of gov-

Figure 1: WA school spending per student is highest of the states



Source: RoGS (2008) Table 4A.8

ernment on WA schools in 2005-06.⁸ About four-fifths of this was provided by the WA government (in line with the states' constitutional responsibility for schooling). Education and training amounted to just over a quarter of the WA state budget in 2006-07⁹—bigger than the health budget.

With so much of our economic potential and public funding dollars at stake, this raises some big questions. How good is the Western Australian school system? Does Western Australia get good value for money from public funding of its schools? Can Western Australia do better? But first we will briefly review public resourcing of Western Australia's schools.

Public resourcing of Western Australia's schools

In 2005-06, total spending per WA government school student¹⁰ was significantly higher than for the other states. Indeed, WA's spending was only outmatched by the territories—see Figure 1. (The average for Australia is also shown.)

Of course spending is only part of the story—each

state and territory faces different cost 'disabilities' related to the mix of students and geography and the spread of their population. These cost disabilities are largely outside the control of government.

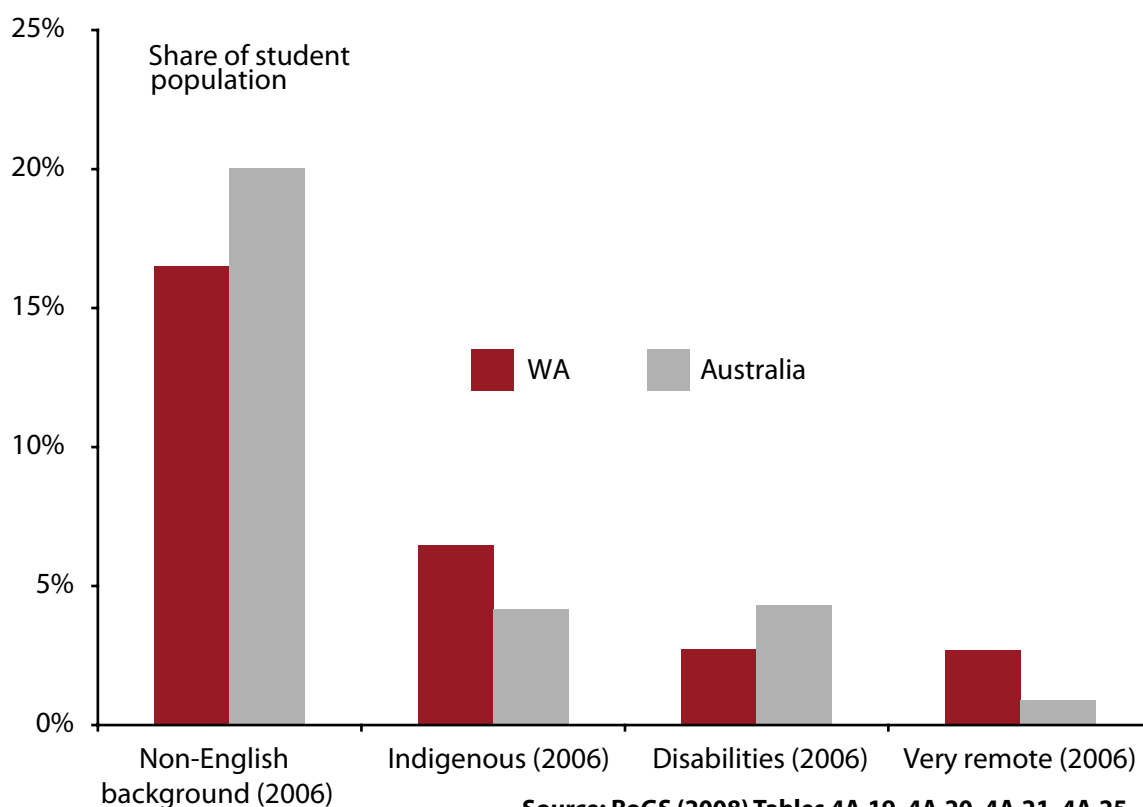
In terms of student mix, some of the major drivers of school costs include the proportion of students who:

- have a language background other than English
- are indigenous
- have a disability; or
- live in a remote or very remote area;

Figure 2 shows the proportion of students who fit into these categories in WA's schools (both government and non-government) compared with Australian schools as a whole. (There will be some students who 'overlap' by falling into two or more of these categories.)

Non-English speaking background students face a greater risk of not achieving at school because of the potential for a 'language barrier' to operate as a block to their learning. There are various programmes for reducing this risk and (as we will see) Australia has been notably successful in integrating these students. The non-English speaking background student population is heavily concentrated in NSW and Victoria. As WA has a significantly smaller proportion of non-English speaking background students (17 per cent) than Australia as

Figure 2: WA vs Australia by selected measures of student disadvantage



a whole (20 per cent), this is a cost factor operating in Western Australia's favour.

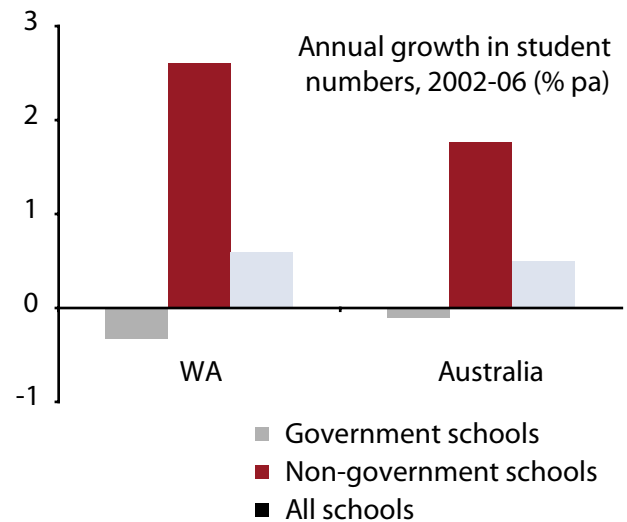
Indigenous educational disadvantage is a continuing problem in search of a solution. The proportion of indigenous students in WA is significantly higher than for Australia as a whole, although WA is well behind the NT and just behind Tasmania.

Certain types of **disability** require specially trained teachers and methods. The proportion of disabled students was relatively low in WA in 2006.¹¹ However, this may reflect tighter criteria in WA for accessing special education services and programs.¹²

Another form of educational disadvantage that can entail greater costs for the running of the school system is the fraction of children with a family background of low '**socioeconomic status**' (or SES). SES is usually defined by a mix of parents' income, occupational status and education status. Children from families on low incomes where the breadwinners have little education and low status (or no) jobs are at risk of underachieving. WA's average SES is unlikely to be much different from Australia's.

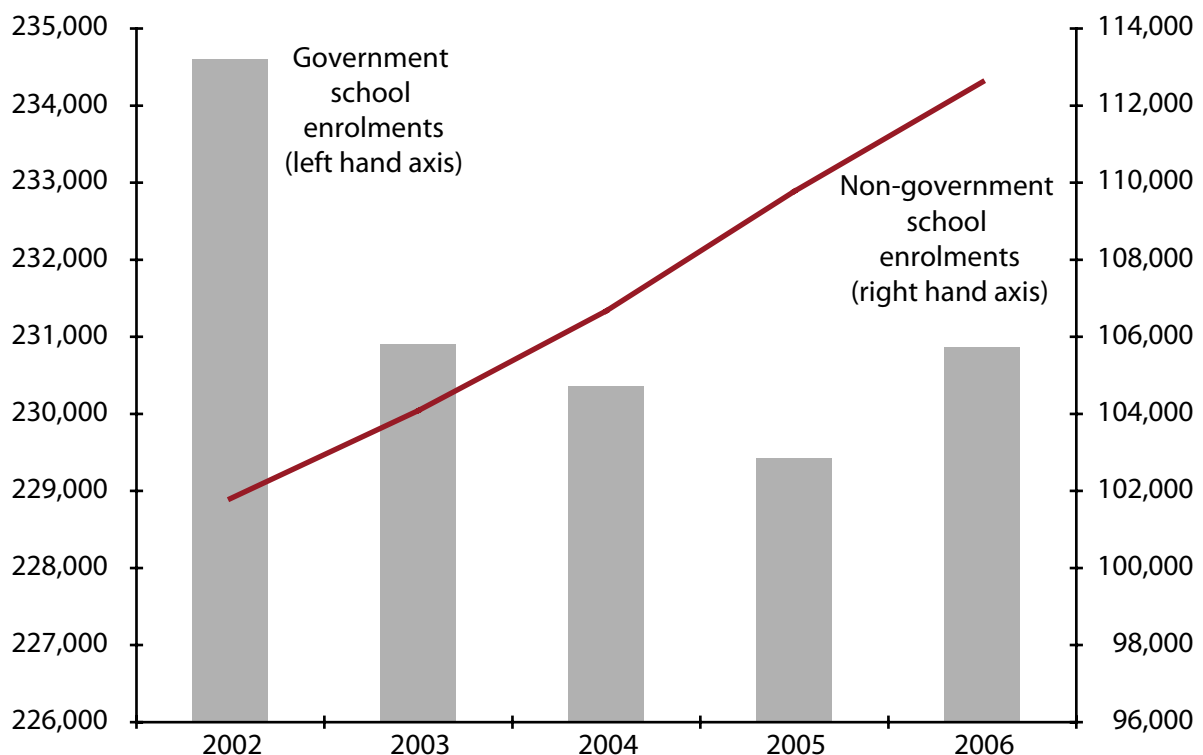
Finally, students living in non-Metropolitan areas, particularly **remote** areas, can be much more costly to school because of the difficulties in attracting teachers to these areas as well as the difficulties in maintaining a viable school or class size.¹³ Here, WA is at a particular disadvantage as its 'remote' or 'very remote' student share

Figure 4: WA student growth amplifies national trends



Source: RoGS (2008)Table 4A.18

Figure 3: WA non-government schools student growth dominates



Source: RoGS (2008)Table 4A.1,4A.2

is about three times larger than Australia's share.¹⁴

In addition to student mix, another important driver of school public funding costs is the size of the **non-government school sector**. The average non-government school student attracts significantly less public funding than the average government school student.

In effect, the first \$5,600 or so of WA non-government school fees merely serves to offset the reduced taxpayer support for non-government schools.¹⁵

Most of the recent growth in Western Australian student numbers has been in non-government schools which have added an extra 11,000 students to their rolls from 2002 to 2006.

By contrast, WA's government school rolls have declined by 4,000 over the same period (with a small bounce back in 2006)—see Figure 3.

Despite these recent trends, as of 2006, the proportion of government school students in WA (67.2 per cent) was a little higher than for Australia as a whole (66.8 per cent).

The strong growth in Western Australia's non-government school student numbers has reduced pressure on taxpayers to provide public schooling in WA. It is estimated that the total savings to taxpayers resulting from the private financing of the WA non-government school system is in excess of \$600 million each year.¹⁶

The trends in Western Australia's changing government/non-government school student mix amplify na-

tional trends.

From 2002 to 2006, WA government school student numbers have been declining more quickly than for Australia as a whole. WA non-government school student numbers have been growing more quickly—See Figure 4.

Teaching resources

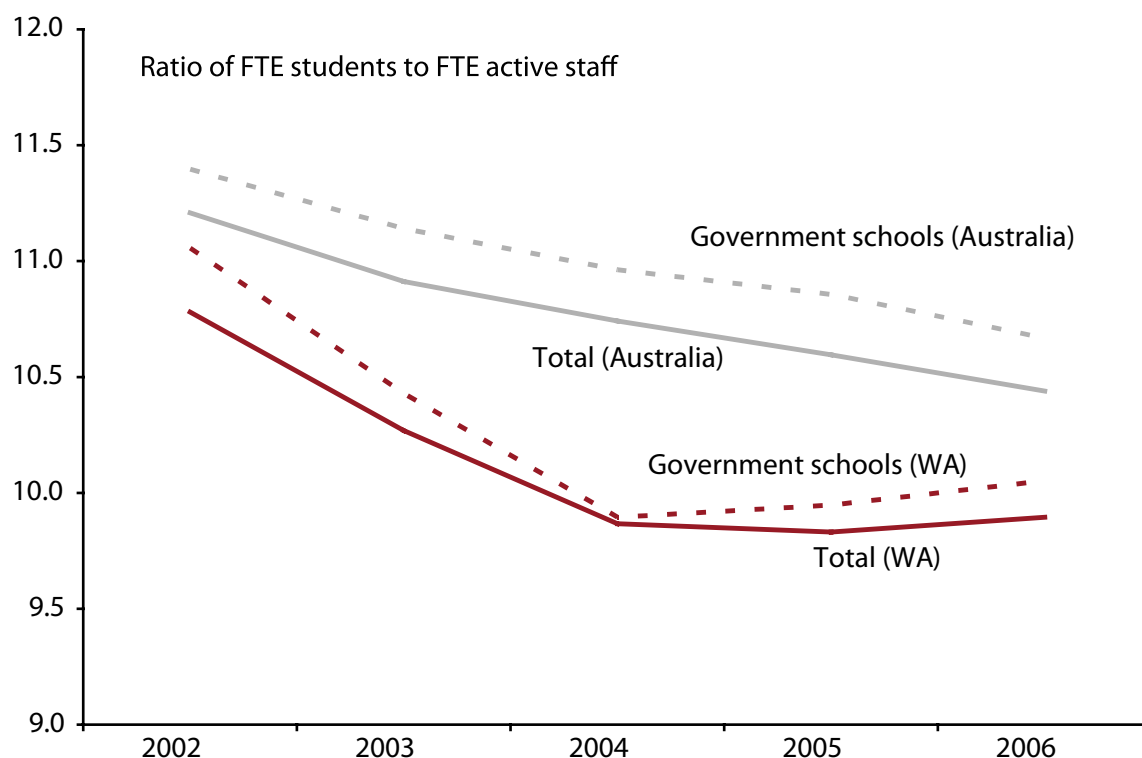
An important 'bottom line' indicator of the relative availability of teaching resources is the number of students for each school staff member.¹⁷

With trends in WA non-government school numbers catching up with the rest of Australia, this has helped a little in reducing the number of staff per student in the Western Australian government school sector.

In 2006, the number of students for each staffer in Western Australia was well below the national average and one of the lowest in Australia—see Figure 5. While there are numerous caveats to this data,¹⁸ it seems that staff at WA's schools have increased since 2002.

As staff costs (teaching and non-teaching) account for nearly two-thirds of both WA and Australian school costs,¹⁹ WA schools appear to be well-resourced at the 'pointy end' of service delivery to educate its 340,000 plus students.²⁰

Figure 5: Fewer students for each staff member



Source: RoGS (2008) Table 4A.1, Table 4A.2, Matthew Ryan

WA student outcomes

Successful student outcomes, as measured by the quantity and quality of schooling, are of prime interest to policy makers as important drivers of future economic prosperity.

This section will review Western Australia's student 'completion rates' and student achievement in literacy, mathematics and science.

Completion rates

The 'completion rate' is the number of students who obtain a year 12 certificate as a proportion of the relevant age group.²¹ The completion rate is an important indicator of the success of governments in developing the talents of young people through schooling. (Other measures are being considered for those students who enrol in school part time or pursue their senior secondary studies or an equivalent VET qualification at TAFE.)

In 2006, WA's overall completion rate was 3 percentage points short of the national average²²—the left most bars in Figure 6. WA ranked ahead of Tasmania and the Northern Territory—and behind the others. The other indicators in Figure 6 compare Western Australia's completion rates for selected sub-groups with the national average:

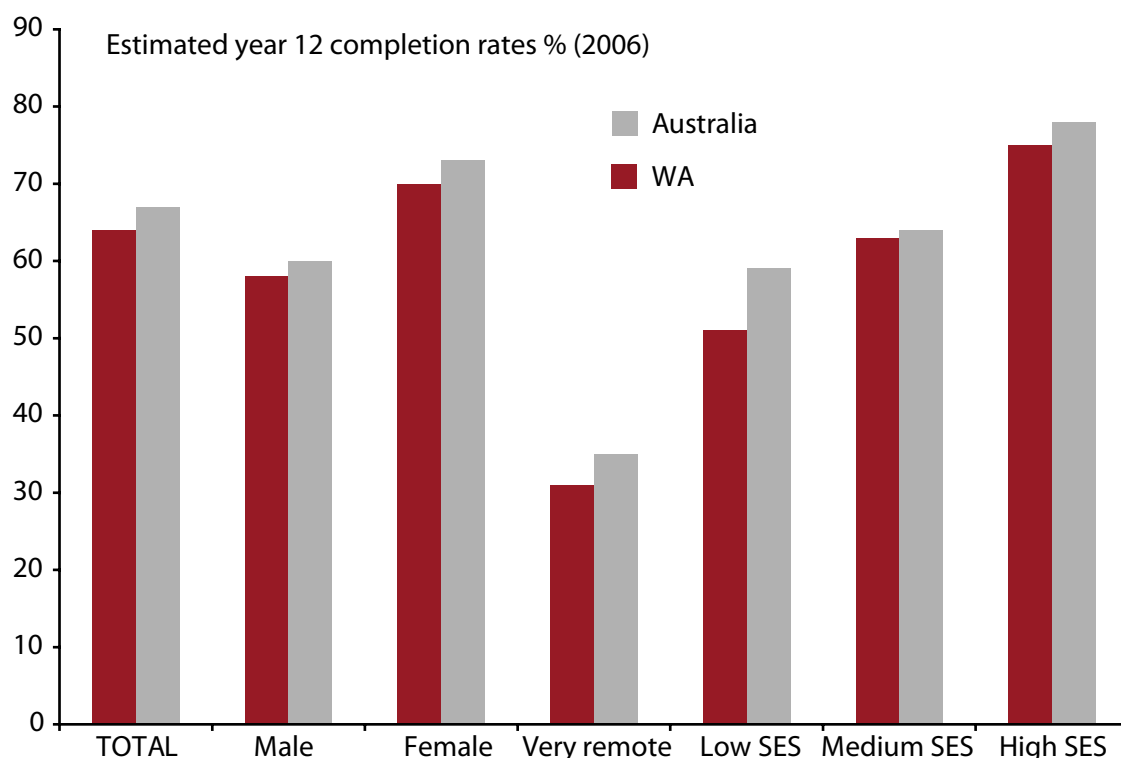
- In all of these sub-groups, WA's completion rates were lower than the national average
- Males generally have lower completion rates than females
- Students in remote or very remote areas have very low completion rates
- Completion rates rise with socioeconomic status: as seen in the three right hand sets of bars.²³

While the latest completion rate estimates are a little disappointing for WA, major progress has been made in raising completion rates in recent years. Back in 2001, WA year 12 completions were a full 5 percentage points short of the national rate. By 2003, the gap was reduced to 4 points. By 2005, the gap was reduced to 1 point—before rebounding to 3 points in the latest data. This is shown in Figure 7.

The figure shows that there had been quite an improvement in the relative performance of WA schools in attracting and retaining students through to year 12 up until 2005. Furthermore, this progress was across-the-board for the various sub-categories of students: for females and males, for remote students and for students from all SES backgrounds.

The apparent unravelling in this progress in the latest data may well be due to the increased opportunities for WA youth to trade-off extra schooling for well-paid

Figure 6: Year 12 completion rates, WA vs Australia



Source: RoGS (2008) Table 4A.1, Table 4A.2, Matthew Ryan

jobs (with perhaps limited career prospects).²⁴ Since at least around the middle of 2004, WA jobs growth has been stronger, unemployment rates lower and wages have been growing faster than for Australia as a whole.

Western Australia's minimum school leaving age was raised to 16 years in 2006 and 17 years in 2008. This latest move could prove to be very timely.

Student achievement

How do Western Australian students compare with the rest of Australia?

Student achievement is measured along social, personal and academic dimensions.

Here we will focus on academic achievements. But doing so, is not to belittle the importance of creating 'well-rounded and grounded' students. Rather, it must be recognised that the main policy interest is in academic achievement because it bears the closest links to future economic prosperity.

Western Australia, along with the other states and territories, currently provides information on their year 3, year 5 and year 7 student achievements in reading, writing and numeracy. In general, over 80 per cent of Western Australian students meet national benchmarks for competence in these areas.²⁵ (Eventually, nationally

comparable year 9 scores will become available.)

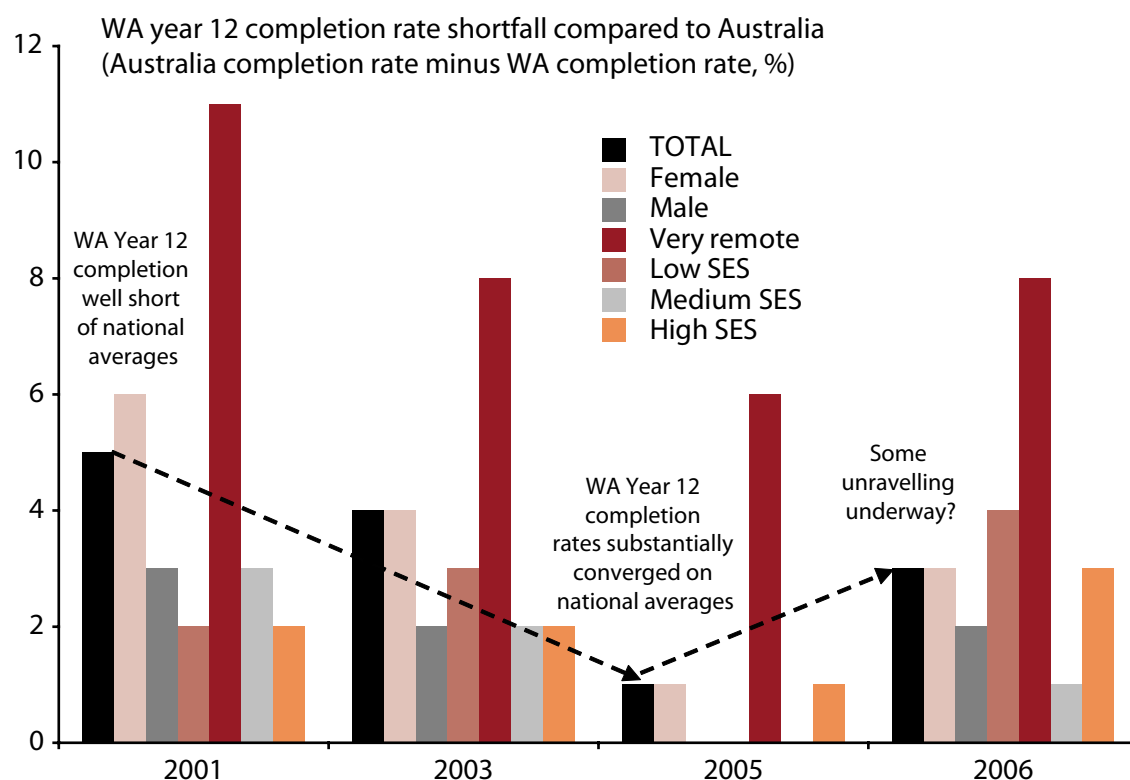
Unfortunately, inter-state comparisons of these results are complicated by inconsistent data treatment, not least of which is the large difference in the number of years of schooling faced by students in the different jurisdictions. For example, in 2004 the typical Western Australian year 3 student (at the time they did their reading test) had an average of 2 years and 7 months of schooling (the least experience in Australia). This relative lack of experience compared with 3 years and 7 months for a NSW or Victorian student.²⁶

Presently, there are 5 different school starting ages around Australia. It means that families considering pursuing job opportunities in Western Australia may face obstacles in relocating their school-aged children to WA. For example, a child may be 'out of sync' with their Western Australian peers requiring that the child be put back a year.

A national, common school starting age would help ease the relocation difficulties for families wanting to move to WA. Such a proposal would also have made the national data on student achievement more consistent and the states more accountable.

A proposal for a common school starting age was rejected by state and territory education ministers in 2007. In the proposal that was rejected by ministers, the other states and territories would have moved *towards*

Figure 7: WA completion 'gaps' trend down to national average, but has there been a recent reversal?



Source: RoGS (2007) Table 3A.122 RoGS (2008) Table 4A.122

the Western Australian and Queensland starting age.

Another set of student tests, without so much of the ‘barbed wire’ of the ‘nationally comparable’ data is the *Programme for International Student Assessment* (PISA). PISA has the added advantage of international comparability.²⁷

PISA tests the learning outcomes of 15-year-olds across the three ‘domains’ of reading literacy, mathematical literacy and scientific literacy. By ‘literacy’, PISA tests for broader skills and understanding, not just the common meaning of being able to read and write.

The size of PISA is something to behold. In the latest PISA (2006), a random sample of almost 400,000 students from 57 countries participated, including nearly 1,500 West Australians from 38 government and non-government schools.²⁸

In 2006, scientific literacy was given the most thorough testing (in 2003 it was maths; in 2000, reading and writing).

In scientific literacy, WA students scored an average of 543 on the science scale in 2006, the second highest in Australia after the ACT—see Figure 8. Educationists are particular about the interpretation of their data so it should be mentioned that PISA results are published as ranges rather than point estimates. So although WA students averaged 543, the ‘true’ average of all WA stu-

dents (not just the ones who were surveyed) probably²⁹ lies somewhere between 529 and 557.

This uncertainty about WA’s true average is indicated by the dark brown range for WA in the figure. Similar uncertainty applies to the other states’ results. The upshot is that if other states’ averages (indicated by the horizontal arrows) fall within the brown range for WA, we can’t be sure that WA’s average is different from the average for these states. States in the same ‘ballpark’ as WA include ACT, NSW and SA (the ‘light brown’ bars).

But we can say that WA outperformed Queensland, Victoria, Tasmania and the NT (light yellow bars).

In mathematical literacy, WA achieved similar results to the ACT, NSW, SA and Queensland and significantly better results than Victoria, Tasmania and the NT—see Figure 9.

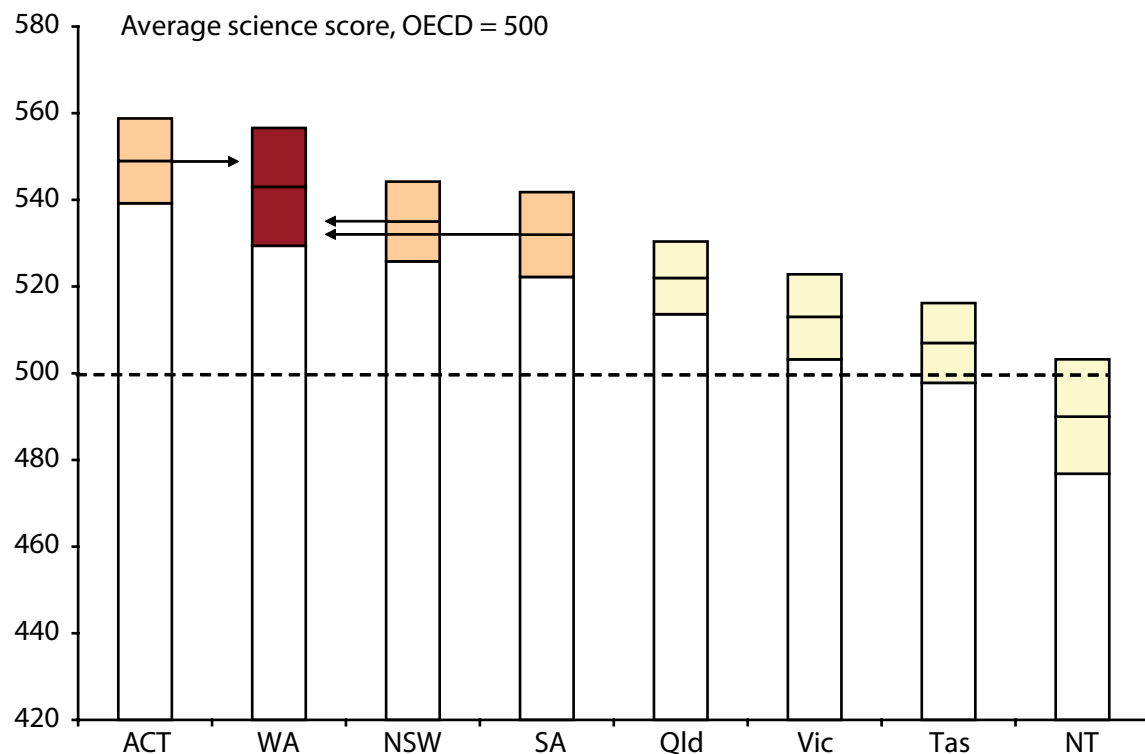
Finally, in reading literacy, WA performed on a par with NSW and SA and outperformed those of the other states and the Northern Territory. See Figure 10.

What about disadvantaged groups?

While averages are a good indicator of overall student achievement, they don’t show what is happening to disadvantaged student groups.

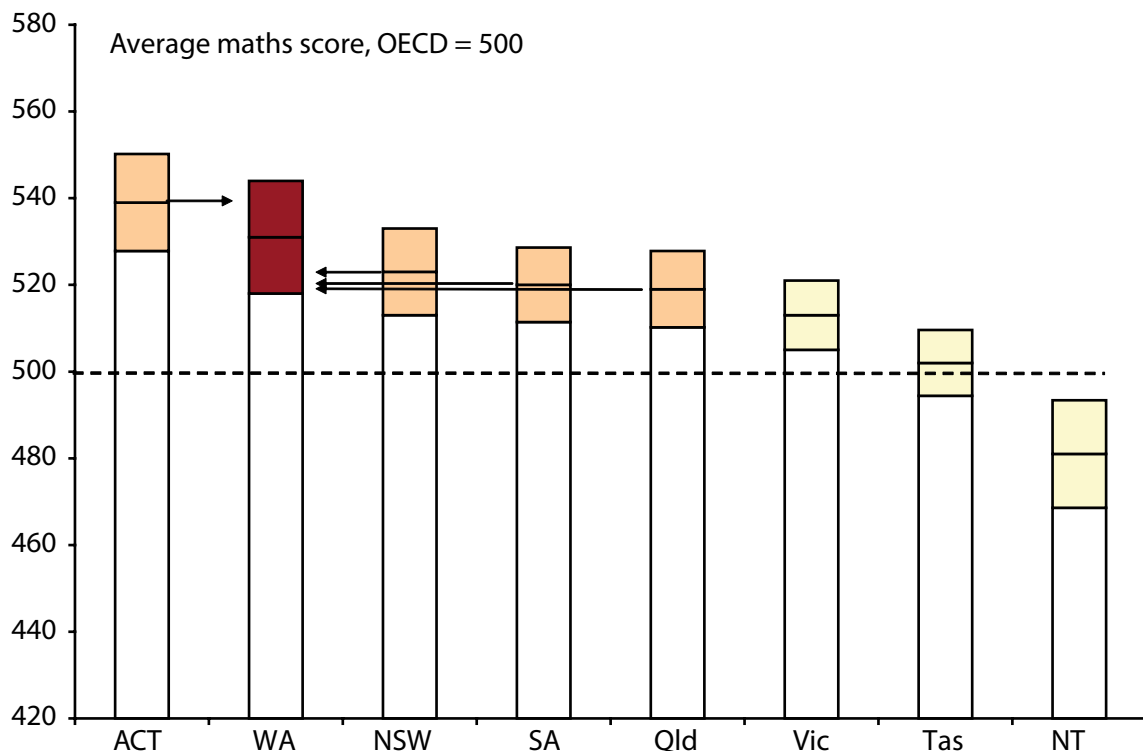
Figure 11 shows Australian³⁰ student scores (for science) by region, indigenous status, migrant status and so-

Figure 8: WA science students amongst Australia’s top performers



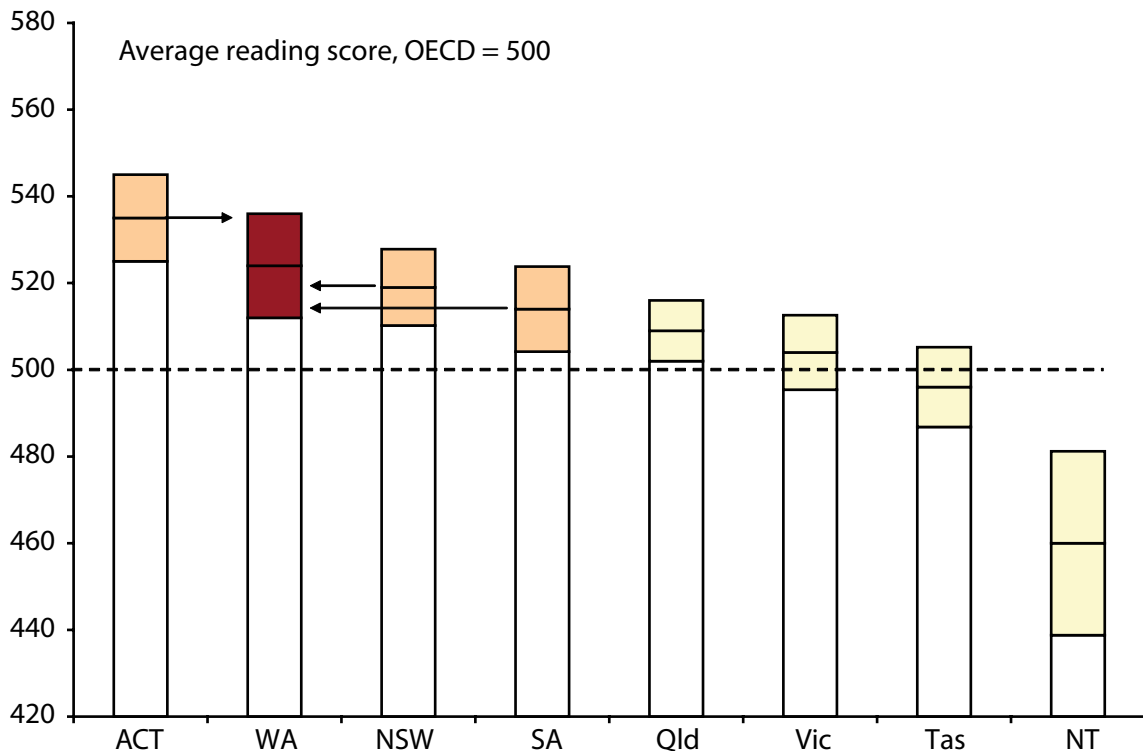
Source: PISA 2006, ‘Science Competencies for Today’s World’ (2007), ‘Exploring Scientific Literacy from Australia’s Perspective’ ACER (2008), Table 3.2

Figure 9: WA maths students amongst Australia's top performers



Source: PISA 2006, 'Science Competencies for Today's World' (2007), 'Exploring Scientific Literacy from Australia's Perspective' ACER (2008), Table 6.1

Figure 10: WA student literacy amongst Australia's highest



Source: PISA 2006, 'Science Competencies for Today's World' (2007), 'Exploring Scientific Literacy from Australia's Perspective' ACER (2008), Table 5.2

cial background. As before, the coloured bars show the range of uncertainty around the estimated average score with the middle horizontal line between the coloured bars indicating the average.

Regional students

Scores decline a little for students living in provincial areas and a lot for students living in remote areas. There would seem to be room for Australia to improve its outcomes here.

Indigenous students

There is a large gap between the average scores for indigenous and non-indigenous students. This is of enduring concern. (Note the overlap here with the relatively low scores for remote area students.)

Foreign students

Scores differ little between second (third, fourth...) generation Australian students and students who are first generation (born here to migrants) or who were born overseas. Australia's school system appears to play its part in integrating migrants.

Students from families with low socio-

economic status (SES)

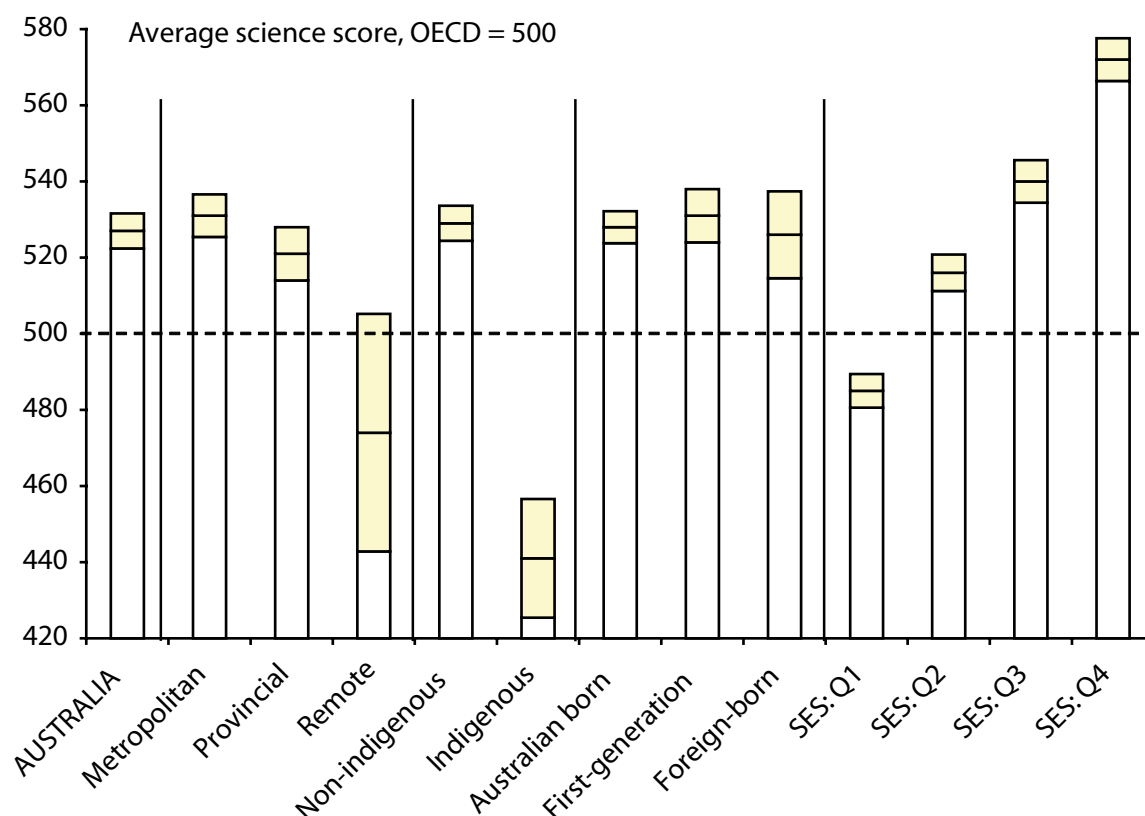
As can be seen in the figure, scores rise with students' social and economic status. Students in the bottom quarter of SES scored an average of 485 (in the figure, SES: Q1) whereas students in the top quarter scored an average of 572 (SES: Q4).

The relationship between SES and students' scores is often taken to be a broad indicator of the equity of a country's school system. In all countries, the relationship is positive: high income, highly educated parents in high status jobs tend to produce higher achieving children.

However the strength of this relationship is surprisingly weak: if you knew the socio-economic status of an Australian student, you would be able to correctly guess their PISA scores in science, reading and maths only 10 to 11 per cent of the time.³¹ In the 'lucky dip' of life, being born into an elite social class accounts for little in terms of how raw human capital is distributed in Australian society (as measured by 15 year olds' PISA scores).

Furthermore, because of our high average student scores and weaker than average relationship between SES and student scores, Australia is regarded as having a 'high performance, high equity' school system, Western

Figure 11: Australian science scores by region, social background, migrant and indigenous status



Source: 'Exploring Scientific Literacy from Australia's Perspective' ACER (2008), pp73-76

Australia particularly so.³²

Unfortunately this fact is not recognised by some of Australia's most senior education policy advisers, who insist on describing Australia as having a 'high quality, low equity' school system.³³ As faulty conclusions can lead to faulty policy recommendations, this is one myth that needs to be 'debunked'.

To quote Thomson *et al* in their summing up of Australia's performance (at page 243):

Australia was characterised as high performance but low equity in PISA 2000 in reading literacy, and as high performance and high equity in PISA 2003 in mathematical literacy. In 2006, scientific literacy in **Australia is again high performance and high equity**. [emphasis added]

How do Western Australian students compare with the rest of the developed world?

Because PISA is international, we can compare WA students with those of the rest of the developed world—see Figure 12.

While Australia was significantly outperformed in

scientific literacy by Finland, Hong Kong-China and Canada, this is not the case for WA. Only Finland clearly outperforms WA.

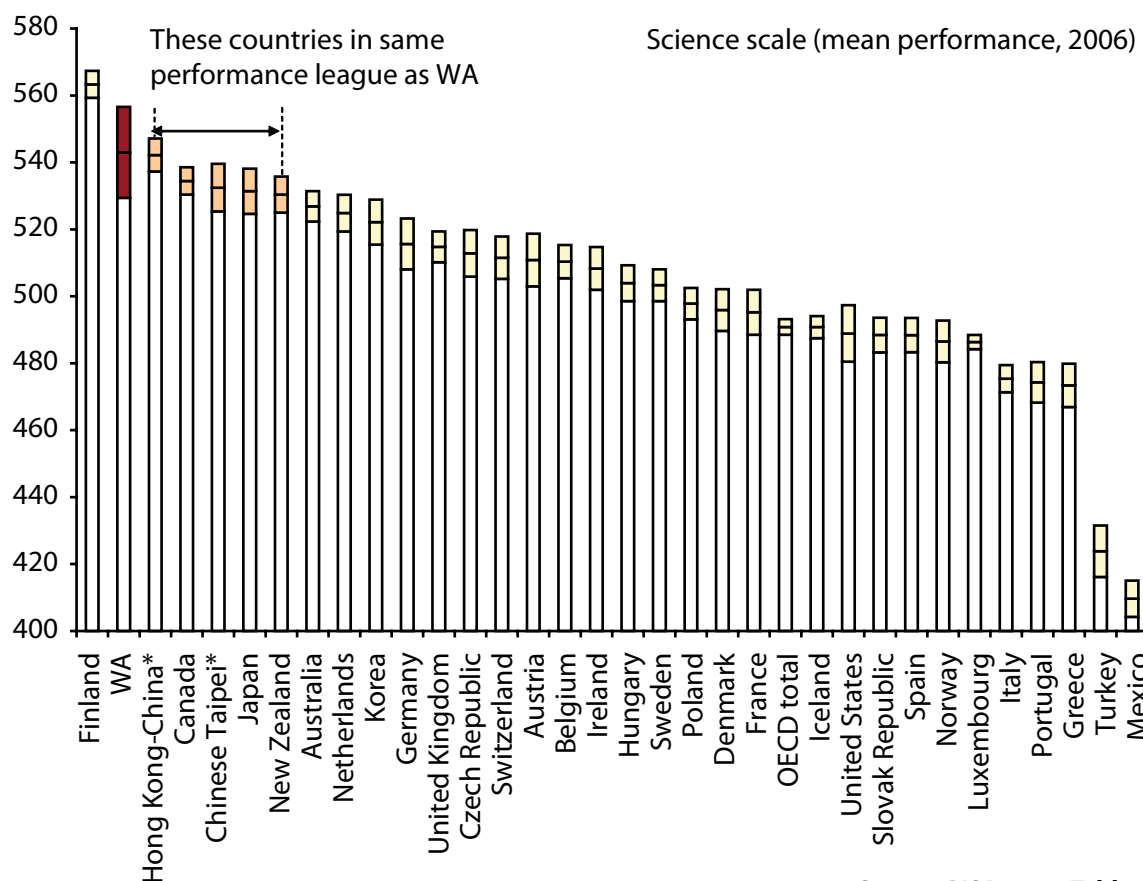
In addition, only a small group of countries are in the same performance league as WA: Canada, Japan and NZ (amongst OECD countries) and Chinese Taipei and Hong Kong (from the other PISA participating countries).

Many international educationists make the grand trek to their 'poster child'—Finland—to learn its 'secret'. Perhaps instead they should be trekking to WA: they would have a better time and would learn about how to school in a mixed global society, not a frozen monoculture with an indigenous population of only 0.1 per cent.

Gifted students

While averages are a good indicator of overall student achievement, average students are unlikely to go on to make the next great discovery (such as the real cause of stomach ulcers); only the very top performers are contenders. These very top performers may well go on to generate economic prosperity in ways that we can only imagine—or as Bill Gates is claimed to have said: 'we need to be nice to nerds as one day we might end up

Figure 12: WA science students amongst world's top performers



Source: PISA 2006, Table 2.1c,
PISA from Australia's perspective, Table 3.11

working for them'.³⁴

It is worth noting that Western Australia is stacked with top-performing 15-year-olds. Across the OECD, just over one per cent of students achieved the top level of proficiency in science, while in Finland this proportion was almost four per cent. A similar proportion was achieved in Western Australia (as well as the ACT, and NSW). In the other Australian states, the proportion of students achieving the top proficiency level was two to three per cent³⁵—still well above the average for the OECD.

Value for money

Does the Western Australian school system provide a good value for its money? One way of measuring value for money is to compare a broad measure of student outcomes with a broad measure of taxpayer support for schools.

Figure 13 provides such a comparison. It compares the average of the PISA scores (science, math and reading) along the bottom axis with average public funding per student along the left vertical axis. This is done for each Australian state and territory (for 2005-06).

The perfect place to be in Figure 13 is in the top left corner: that is, outstanding student scores with no cost to the taxpayer. The spot is vacant. In the real world, high performing students come at a price. Both WA and ACT have strongly resourced school systems—the ACT particularly so given that it does not have high cost remote areas to maintain; nor does the ACT have a highly disadvantaged indigenous population.

As it happens, WA and the ACT also have the best performing 15 year old students in Australia as measured by PISA (as shown along the vertical axis). We can also compare WA's value for money with other countries³⁶—see Figure 14.

Again, WA stands out as a top performer in terms of this measure of value for money'.³⁷

On the other hand, if you were an American or an Italian you might feel a little peeved at the poor performance of your country's schools given the drain on your pockets.

Making a good system even better

The remainder of this chapter will make a number of suggestions for where priority should be given to further strengthening the current arrangements at an institutional level.

Nurture institutions for continuous improvement

Western Australia, like Australia as a whole, has an excellent record of achievement in its school system. Was it just luck? Are our students just naturally very clever? Or is there something about our education institutions (our policy makers, principals, teachers, parental involvement) that pushes us towards having amongst the world's best students?

It is not likely that our students are innately brighter. Neither is it likely that we have been particularly lucky. However, we may have been lucky in our schooling 'institutional framework'. As in other areas where Australia has outperformed—such as sports, macroeconomic policy, corporate governance—'institutions matter'.

The institutional framework for our schools might be best described as a feedback loop which has the effect of encouraging continuous improvement. The loop is:

- (i) We monitor student outcomes as part of state, national (Report on Government Services) and international processes (PISA).
- (ii) In response to those outcomes, we refine our understanding of the links between school inputs and student outcomes. With the right incentives in place, school inputs are adapted with the aim of improving student outcomes. Repeat the loop from (i).

The adjustment of school inputs at step (ii) is encouraged by competition between school providers at various levels which acts to weed out sloppy arrangements and to stoke higher standards of student achievement.

At the highest level, our schools face limited **international competition**. Our involvement in international student testing (PISA) informs us of our relative performance in student achievement. In the (unlikely) event that standards in Australian schools were to radically decline then the number of foreign students in senior grade years in Australian high schools would likely fall off. Secondly, Australian parents might be tempted to consider foreign schools (such as in Singapore, New Zealand or Canada) for their senior students.

At the next level down, our system of federation encourages **competition between the states and territories** and provides a limited check on failed educational policies at the state/territory level.

At another level, **competition between school sys-**

Figure 13: Value for money—WA vs Australia

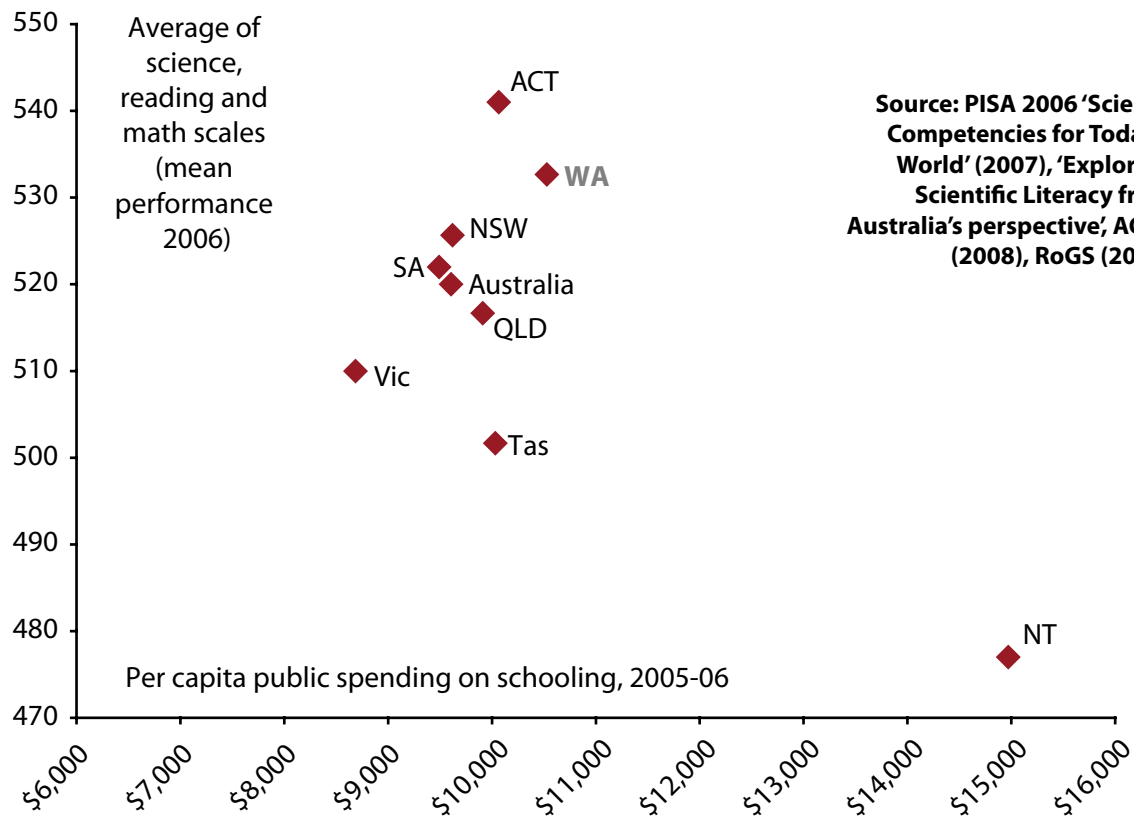
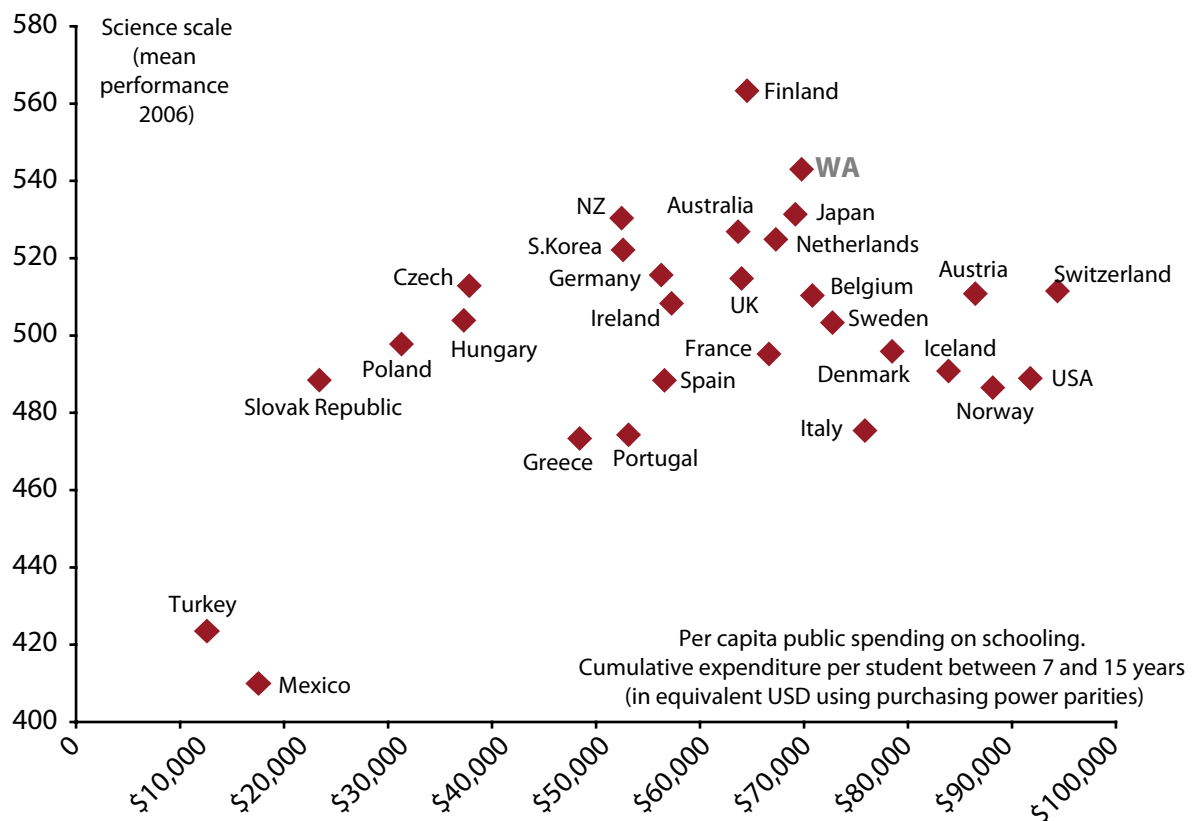


Figure 14: Value for money—WA vs world



Source: PISA 2006 'Science Competencies for Today's World' (2007), 'Exploring Scientific Literacy from Australia's perspective', ACER (2008), Matthew Ryan (estimate of WA school spending)⁶

tems (government and non-government) within each state and territory provides a more substantive check on failed arrangements at the system level. Parents may exercise their choice in whether their child attends a government or non-government school. While parents' choice is financially biased towards government schools,³⁸ the choice is still there.

Competition between schools provides a check on failed arrangements at the school level. This competition is enhanced when schools report their performance to parents and others in the community.³⁹ The Western Australian 'School Accountability Framework' provides a good model.⁴⁰ Competition between government schools is heightened when parents are not limited to the local school but may choose schools further a field. Again, the Western Australian model allows this. However, when a WA government school becomes 'too attractive' (when there are not enough places for the number of students wanting to enter), student entry is rationed according to how close the student is from the school.⁴¹ For families able to afford to relocate in the more expensive homes near the best government schools, the current rationing system is not an issue. For less well-off families, the options are more limited.

Finally, there is a degree of **competition between teachers** to be 'the best' with all of the rewards associated with being a successful professional. Each of these levels of competition 'chunk up' into higher levels of cooperation:

1. Teachers and principals co-operate in the running of schools.
2. The leadership of schools co-operate in running aspects of government and non-government school systems.
3. These in turn co-operate with policy makers in the running of state education systems.
4. The states co-operate with the Commonwealth in policy decisions affecting the nation (MCEETYA).⁴²
5. Australia co-operates with other countries in analysing education policies and performance data (at the OECD including the use of the PISA).

At first glance, competition at each of these five levels might look 'wasteful'—an argument that might go down well in a highly centralised (and underperforming) school system such as that of France's. ('If only we had one national school system we could save money on ministers for education, policy bureaucrats, ensure our school buildings were full ...' etc.)

If competition was eliminated it is narrowly true that schools could operate more cheaply and efficiently. But this argument applies more broadly. If Australian drivers choices were limited to one make of car then we could also eliminate much 'waste' in the production, distribution and repair of our car fleet. But with no choice, the incentives to aim for world's best practice in car making would

disappear.

That is why, in the case of motor cars, we accept the loss of 'static efficiency' in order to gain the benefits of 'dynamic efficiency'.⁴³ Likewise, competition at each of the five levels of school policy formation helps ensure that we make the right decisions in allocating scarce school resources.

Crucially, these arrangements allow innovations to 'filter up from below'. To give one example, a teacher may accidentally hit on a particularly effective method of dealing with school truancy—such as texting parents on their mobile phones when children are unexpectedly absent from roll call. This innovation might then be trialled by all teachers for the whole school. If successful, this method might then be trialled for a state government or non-government school system—and so on with the anti-truancy policy potentially becoming recognised as world best practice. The point is that innovations from below are low risk—if they don't work, they are not applied more broadly. With a large and centralised education system there is less scope for trial and error.

These arrangements also allow best practice to 'filter down from above' from shared international experience or from experience in other Australian jurisdictions. Innovations from above are trickier and higher risk and have triggered some of our fiercest debates—such as the recent debate about the net benefits of having a nationally common school starting age. The difficulties arise because there is often room for legitimate disagreement as to whether certain standards should be centrally determined or not.

The central strategic policy point of this chapter is that we should nurture all of these feedback loops in the formation of the running of our schools:

- Competition between state education systems is healthy
- Competition between government and non-government school systems is healthy
- Competition between schools is healthy; and
- Competition between teachers to succeed at their careers is healthy.

As always, competition needs to come with certain ground rules:

- As far as possible we should provide 'level playing fields' for all of the players
- Make sure none of the players are cheating or manipulating their test scores. We could make inter-state student achievement comparisons more transparent by removing some of the 'barbed wire' making comparisons difficult; and
- That there is honest dealing between the competitors.

Support efforts to improve our understanding of the links between school inputs and student outcomes

All of the players in our school system—policy makers, principals, teachers and families—have an interest in understanding how they can improve student outcomes.

The goal of the exercise is to improve student outcomes. If improving teacher satisfaction is part of that process, well and good. If we have to make a choice between improving student outcomes and keeping teachers happy—it shouldn't be controversial to state that 'students must come first'.

There is a host of research from Australia and overseas into the links between school inputs and student outcomes. ('School inputs' includes all of the underlying drivers of student achievement such as the quality of their teachers and the organisation of the school including morale and facilities etc.) This type of research helps inform good policy and decision making at each level of school policy formation. The recent review, led by Professor Bill Louden from the University of Western Australia, into how to raise literacy and numeracy for WA's young children (who are not meeting the benchmarks) is an excellent example.⁴⁴

By way of background, the sources of student performance are sixfold⁴⁵ and their quantitative link to student achievement is illustrated in Figure 15.⁴⁶

Students—the characteristics of students (which is a combination of genetics and life experience) accounts for about half of their performance.

Home—home life has an additional influence (beyond moulding students' life experiences) on student performance in motivating and forming students' expectations

and accounts for about 5-10 per cent of student performance.

Schools—including their principal, their finances, their size, class sizes, the buildings—accounts for about 5-10 per cent of student performance.

Principals—responsible for leading and influencing a school's culture (included in 'Schools' above).

Peer effects—children competing with a strong peer group tend to lift their performance. Children competing with a weaker peer group tend to lower their performance. Peer effects account for about 5-10 per cent of student performance.

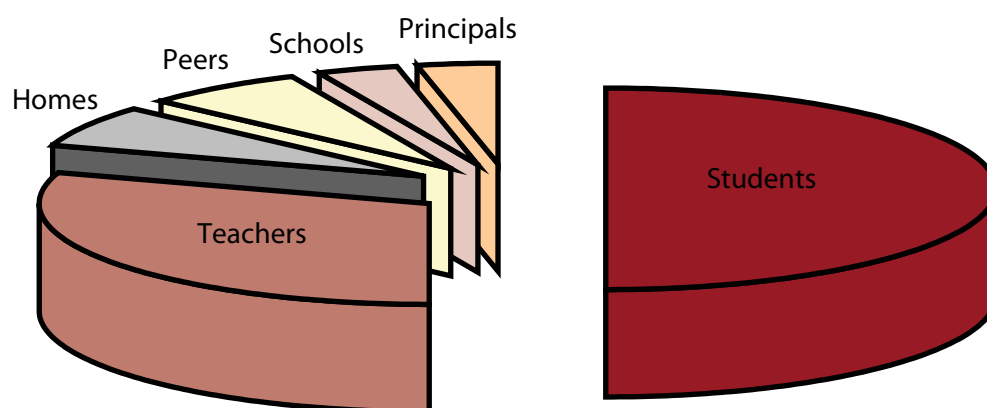
Teachers—account for about 30 per cent of the variance. It is what teachers know, do, and care about which is very powerful in driving student achievement.

The policy implications of Figure 15 are clear.

- What students 'bring to the table' is the most important determinant of their success. However, there is little that policy can do—even in the long run—to change students' innate abilities or the social life of their family and community.
- There are few obvious, acceptable policies for raising the quality of parenting and raising parents' expectations for their children.
- Policy can improve school infrastructure and reduce average class sizes. The quality of school leadership can be raised. But the combined effects of these policies are quite minor.
- Policy could raise the quality of peer interactions for selected students—but at the cost of lowering the quality of peer interactions for others.

The **standout factor** which is both important and policy can positively influence is the quality of **teaching**.

Figure 15: What drives student achievement?



Source: Adapted from Hattie (2003)

Reinforce teaching as a profession

Despite the importance of teaching to student achievement, nationally, teaching remains a somewhat reluctant profession.

In a world of expanding graduate career opportunities, teaching has become much less competitive with the result that the quality of new graduate teachers has been declining. Andrew Leigh and Chris Ryan at the Australian National University found that in 1983, the average person entering Australian teacher education was in the top 26 per cent of the talent pool. By 2003, this had slipped to the top 39 per cent.⁴⁷

That said, Western Australia is doing its bit to reverse this decline and raise the status of teaching.

WA leads the country in paying new graduate teachers. A four year trained teacher has a starting salary of around \$50,000 pa.⁴⁸

At the other—highly experienced—end of the teaching profession, a ‘Level 3’ classroom teacher in WA can presently earn \$77,744 pa base salary.⁴⁹ This also appears to be the highest teacher salary on offer in Australia (by a few thousand dollars).

Notice that peak teacher salaries are about one and a half times teacher starting salaries. That is, there is not a huge ‘gradient’ in pursuing a teaching career. By contrast, top professionals in law, accounting, medicine and other fields can expect to earn multiples of their starting salaries, not around one and a half (or even two). If teachers want to earn more than around one and a half times their starting salaries, they need to move out of the classroom and into administration or other fields (or perhaps into non-government schools).

Professional development of teachers is one of the major ways in which we can lift the quality of teachers.⁵⁰ WA has strong support structures in place, including the Professional Learning Institute which (under the umbrella of the Department of Education and Training) aims to raise the bar on the quality of teaching, the quality of leadership and the quality of organisational support.⁵¹

Features that are common to a number of other professions, such as performance bonuses linked to achieving agreed outcomes (‘performance pay’) remain controversial when they are considered for application to the teaching profession. When performance pay was first mooted (by the then Federal Education Minister in 2007), the then Australian Education Union president rejected it as ‘completely unreasonable to hold a teacher responsible for outcomes’.⁵³

There is of course no contradiction between having passion for a job and being rewarded for success. One of the concerns with performance pay is that it would unfairly disadvantage teachers with below-average students. To avoid this concern, one of the performance pay compo-

nents to teachers’ salaries should be linked to their ‘value add’ to student performance. By ‘value add’, teachers are rewarded for making their students smarter, not for having smart students—and, yes, this can be measured.

There appear to be no performance pay processes in WA government schools. Performance pay may be worth considering in dealing with the most enduring failures of all Australian schooling: in raising the outcomes for indigenous (and especially remote indigenous) students.

The recent proposal from the Cape York Institute provides a model for how teacher performance pay might work.⁵⁴ The ‘Teach for Australia’ proposal would apply a (tax-free⁵⁵) loading of \$50,000 per year (experienced teachers) and \$20,000 (for graduate teachers) for those teachers prepared to work with students in the most disadvantaged indigenous communities. Graduate teachers would be targeted from the top ten per cent of year 12 students. The loadings would continue only for those teachers whose students meet agreed achievement standards (including monthly literacy and numeracy tests).

The way ahead

Western Australian schools policy should have two long run strategic aims. First, schools policy should support the WA economic boom. Second, school policy should nourish competition amongst the different players in applying evidence-based analysis aimed at improving student achievement.

(1) Schools policy will help make the boom work for Western Australia

Thanks to the booming economies of Asia, Western Australia is on a higher growth path than the south and east of Australia. Since at least around the middle of 2004, WA jobs growth has been stronger, unemployment rates lower and wages and prices have been growing faster. Resources—both human and physical—are likely to continue to relocate to WA from the eastern states (and from offshore) in the years ahead.⁵⁶ This needs to happen if WA wages and prices are not to grow too quickly, threatening WA’s (and Australia’s) growth prospects.

WA schooling policies can play their part in facilitating the transfer of resources from the east.

Making WA teacher salaries attractive by national standards is one such important adjustment. If, down the track, paying more for teachers threatens to ‘blow the budget’, WA could consider letting average class sizes grow as there appears to be good trade-off between raising teacher quality even at the expense of increasing class sizes.⁵⁷

WA should also support moves towards harmonising teacher registration across Australia. This will make it easier for WA to shift teachers from the eastern states. Support for other national standards—such as a national common school starting age—would also help other Australians to

make the shift to WA.

Finally, thanks to the boom, it is easier to get a job in WA, including for teenagers. There is a risk that WA teenagers may be tempted by the immediate cash benefits of a lower skilled job thereby putting their schooling at risk. There is some recent evidence that this could already be happening.⁵⁸ Accordingly, the increase in the minimum age for leaving school in WA to 17 years in 2008 could be timely.⁵⁹

(2) Maintain adaptable institutions

If there is a 'secret' to the success of Western Australia's schools (and Australia's schools) it may well lie in the fact that we have successfully built institutions at a number of levels that compete with one another in applying evidence-based analysis. It is no coincidence that most of the world's top school performers are either very small (Finland, Hong Kong, New Zealand) or are federations (Australia, Canada). Being small—or being part of a federation—makes for more responsive, adaptable institutions.

We should therefore be particularly careful about any policies that could undermine our comparative advantage in having flexible, competing school policy making institutions.

In particular, Western Australia's school policy makers should be cautious with regard to any proposals which have the effect of transferring policy decisions to Canberra. If there are clearly net benefits for WA from a centralising proposal, by all means proceed—but Western Australians should be sceptical in weighing up the evidence offered to advance any such proposal.

Another risk is that, as a nation, we misinterpret future

measures of student achievement. It is likely that in coming years that the other billion people in the developed world will improve their school systems—in part by copying our example. As clever as WA students undoubtedly are, it is not reasonable to assume that they will continue to at least match the top 15 per cent and clearly outclass 85 per cent of students from the developed world forever.

When the rest of the developed world gets its act together, our relative standing will appear less impressive because other countries will have learned to match our best practice. However, so long as our own standards remain in touch with the leader(s) and there is no drift down in the absolute level of WA student scores over time, there is no cause for panic or for a radical overhaul of our institutions.

Instead, our flexible and competitive school system will prove to be of most value when it is allowed to continue to test out innovations from the 'bottom up'—with only cautious reliance on directives from the 'top down'.

Conclusion

The state of our schools is one of the hot policy issues—not just for Western Australia, but right around the developed world. Policy makers now have a deeper awareness of the importance of good schools in underpinning economic prosperity.

Western Australian schools enjoy a relatively high level of public funding support. On the other hand, WA has higher cost pressures related to a relatively large proportion of indigenous and/or remote area students.

The proportion of WA youngsters completing their education through to year 12 had risen to close to the national level—but the mining boom has driven a recent decline.

Western Australian students are amongst Australia's—and the developed world's—top performers in science, reading and maths.

In terms of student performance compared to public dollars spent, WA school system gets good value for money by comparison with the rest of Australia and the developed world.

Australia's institutions play an important part in ensuring that Western Australians remain near the top of the class.

- Competition between state education systems is healthy
- Competition between government and non-government school systems is healthy
- Competition between schools is healthy
- Competition between teachers to succeed at their careers is healthy

Of all the things that influence student outcomes and that we can do something about, the quality of teaching is the most important. If we have to make a choice between improving student outcomes and keeping teachers happy—it shouldn't be controversial to state that students must come first.

School policies play a part in facilitating the shift of Australians from the east to help sustain the resource-driven Western Australian economic boom.

- WA teacher salaries need to be—and are—attractive by national standards.
- WA should support moves towards harmonising teacher registration across Australia. This will

make it easier for WA to transfer teachers from the eastern states.

- WA support for other national standards—such as a national common school starting age—would also help other Australians to make the shift to WA.
- Thanks to the boom, it is easier to get a job in WA, including for teenage Western Australians. There is a risk that WA teenagers may be tempted by the immediate cash benefits of a lower skilled job at the risk of dropping out of schooling. The increase in the minimum age for leaving school in WA to 17 years in 2008 could be timely.

Finally, Western Australia should be careful about any proposals which have the effect of transferring policy decisions to Canberra.

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1. OECD. 'The New Economy, Beyond the Hype: The OECD Growth Project', OECD 2001
2. OECD. 'The New Economy, Beyond the Hype: The OECD Growth Project', OECD 2001, p71
3. This estimate was independent of 'ability bias'—the fact that ability and years of school attendance are associated. The other natural experiments related to differences between the states regarding school starting ages and differences in school results between twins. See Leigh, Andrew and Chris Ryan. 'Estimating Returns to Education: Three Natural Experiment Techniques Compared'. Discussion Paper, No. 493. Centre for Economic Policy Research, ANU, August 2005.
4. Department of Education and Training in Western Australia. 'Annual Report 2006-07'. 19 October 2007
5. Commonwealth of Australia. 'Intergenerational Report 2002-03, Budget Paper No. 5', 2002.
6. The first wave comprised reforms at the Commonwealth level (floating of the \$A, budget and tariff reforms). The second wave largely involved reforms of state owned industries (made easier by Commonwealth compensation payments).
7. Council of Australian Governments, 'Communique', 10 February 2006.
8. SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2008', Productivity Commission, Canberra. 2008, Table 4A.9.
9. Department of Education and Training in Western Australia. 'Annual Report 2006-07'. 19 October 2007, p1
10. Including an allowance for the user cost of capital.
11. These students are defined as those receiving disability funding by the Australian Government.
12. State comparisons are provided at SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2008', Productivity Commission, Canberra. 2008, Table 4A.21. To be an eligible student with disabilities, the student (among other things) must satisfy the criteria for enrolment in special education services or special education programs provided by the government of the state or territory in which the student resides. (My emphasis.)
13. That is, there are greater difficulties in achieving 'economies of scale'.
14. Only the 'very remote' share is shown in Figure 2. Some of these students will be included in the indigenous population.
15. Ryan, Matthew. 'Public Funding of Australian Schools: The Facts', Research Paper for Association of Independent Schools of Victoria, July 2007, pp20-21. The estimate was for 2004-05. It is an average.
16. Ryan, Matthew. 'Public Funding of Australian Schools: The Facts', Research Paper for Association of Independent Schools of Victoria, July 2007, pp20-21. Estimates were for 2004-05.
17. School staff is broadly defined and includes teaching and non-teaching staff but not cleaners and emergency and casual relief staff.
18. SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2007', Productivity Commission, Canberra. 2007, p 3.34
19. SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2007', Productivity Commission, Canberra. 2007, Table 3A.7
20. The definition of staff in Figure 5 includes the full time equivalent number of those staff mostly involved in duties at schools, excluding cleaners and emergency and casual relief staff.
21. Further details are provided in Box 3.16, SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2006', Productivity Commission, Canberra. 2006
22. Comparisons across jurisdictions are made difficult because the criteria for obtaining a Year 12 certificates vary across jurisdictions. Broad trends are more important than precise numbers.
23. SES is based on the ABS Index of Disadvantage. Low socioeconomic status is the average of the three lowest deciles, medium socioeconomic status is the average of the four medium deciles and high socioeconomic status is the average of the three highest deciles. The comment is conditioned by the fact that it may be the result of low data quality—see SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2006', Productivity Commission, Canberra. 2006, p3.65. Indigenous students were not included in these calculations but are reflected to some extent in the low SES and very remote figures.
24. I am assuming the apparent unravelling is not the result of some aspect of the completion rate estimation methodology.
25. Department of Education and Training, 'Annual Report 2006-07', pp25-28
26. SCRGSP (Steering Committee for the Review of Government Service Provision), 'Report on Government Services 2007', Productivity Commission, Canberra. 2007, Table 3A.74

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27. There are other international data such as Trends in International Mathematics and Science Study (TIMSS). However, PISA is arguably unmatched for its breadth of international coverage.
28. Thomson, Sue, Lisa De Bortoli. 'Exploring Scientific Literacy, How Australia Measures Up' Australian Council for Education Research (ACER) 2008, p2.
29. 95 per cent
30. The statistical properties of the broader Australian sample (compared to the smaller WA sample) make it more useful for the purposes of this discussion.
31. The slope between SES and student scores in Figure 11 might suggest a stronger relationship. In fact, the figure shows the average score for each student in each SES group—there is a large spread in those scores, which explains why the slope can be strikingly positive but the relationship strikingly weak. In 2006, SES explained 11 to 12 per cent of Australian student scores in science, reading and maths. Thomson, Sue, Lisa De Bortoli. 'Exploring Scientific Literacy, How Australia Measures Up' Australian Council for Education Research (ACER) 2008, p228.
32. Thomson, Sue, Lisa De Bortoli. 'Exploring Scientific Literacy, How Australia Measures Up' Australian Council for Education Research (ACER) 2008, p223
33. Council for the Australian Federation. 'Federalist Paper 2, The Future of Schooling in Australia'. September 2007. p12 and p17.
34. The advice is often attributed to Bill Gates but in fact the source is the book 'Dumbing Down our Kids: Why American Children Feel Good About Themselves But Can't Read or Write' by Charles J. Sykes, St Martins Press. 1996.
35. Thomson, Sue, Lisa De Bortoli. 'Exploring Scientific Literacy, How Australia Measures Up' Australian Council for Education Research (ACER) 2008, p71
36. For the science scale only.
37. The cost of schooling figures were supplied by the OECD for each nation (except Canada). I calculated a cost measure for WA schooling comparable with the other OECD countries by applying the cost relativity suggested by the Report on Government Services data to the OECD's Australian estimate.
38. On average, attendance at a government-provided school attracts a larger implicit public subsidy than attendance at a non-government school. See Ryan, Matthew. 'Public Funding of Australian Schools: The Facts', Research Paper for Association of Independent Schools of Victoria, July 2007.
39. The arguments are summarised in Leigh, Andrew. 'Schools Need a Report Card Too', *Australian Financial Review*, 20 December 2007.
40. Government of Western Australia, Department of Education and Training. 'School Accountability Framework'. 1 July 2005. In addition, there is some competition (and cooperation) in WA between clusters of schools aimed at, amongst other things, maximising use of infrastructure. Government of Western Australia, Department of Education and Training. 'Local Area Education Planning'. 1 July 2005
41. A school is declared 'local intake only'. Government of Western Australia, Department of Education and Training. 'Enrolment'. 1 May 2003.
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43. It was Oskar Lange who made the theoretical case for how socialist resource allocation could replace a market—which is fine if you don't expect to make any progress; that is, the economy is static. Lange, Oskar and Fred M. Taylor. *On the Economic Theory of Socialism*, University of Minnesota Press. 1938
44. The report was commissioned by the WA Minister for Education and Training in March 2006 and completed in March 2007. Department of Education and Training in Western Australia. 'Literacy and Numeracy Review: Final Report'. March 2007.
45. Technically, what is being measured is variation in student performance relative to variations in these six factors. The interactive effects are quite minor. The estimates are approximate and draw on a meta-analysis of over 500,000 studies.
46. This discussion is developed from Hattie, John. 'What Makes Teachers Make a Difference. What is the Research Evidence?' Australian Council of Education Research (ACER) October 2003.
47. Leigh Andrew. 'How Can We Improve Teacher Quality?', *Melbourne Review*, No. 3 November 2007.
48. In the December 2007 EBA offer, four year trained new graduate teachers would see their starting increment raised to a level 1.6 and they would be entitled to a \$1600 starting allowance. See <http://www.det.wa.edu.au/teachingwa/ccm/navigation/updated-eba-offer-dec-07/> and Department of Education and Training in Western Australia. 'The School Education Act Employees' (Teachers and Administrators) General Agreement 2006'. Available from <http://policies.det.wa.edu.au/>
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52. Justine Ferrari, *The Australian*, 18 January 2008
53. A survey is provided in Leigh, Andrew and Sara Mead. 'Lifting Teacher Performance', Progressive Policy Institute, April 2005.
54. Justine Ferrari, *The Australian*, 17 January 2008
55. The tax-free aspect violates good taxation principles.
56. *The West Australian*. 'Treasury wants Qld, WA migration boost' January 19, 2008
57. See Leigh Andrew. 'How Can We Improve Teacher Quality?', *Melbourne Review*, No. 3 November 2007, p4.
58. Recall Figure 7.
59. The minimum school leaving age amounts to government interference in the rights of young people to make their own life choices. The longer-run economic benefits of more schooling are clear cut in my view. In weighing up the loss of autonomy for young people against the broader economic options that more schooling provides, I give more weight to the latter. I accept that others may hold a different view.

Chapter 6

Taking the Pulse: Reform Initiatives for the WA Health System

Ross Fox

Introduction

The health system in Australia is characterised by disparate sources of funding provided to some extent by every level of government, a multitude of providers including hospitals, pharmacies, general practitioners and other speciality health practitioners, and widely varying availability of information for patients on the true costs of service, costs and benefits of care and the quality of the care provided. The health system in Western Australia incorporates this same range of highly complex interactions and transactions.

This chapter is intended to briefly review the publicly available data on the efficiency and quality of the public hospital system in WA. The chapter was constrained to publicly available data because of the resources and time available for its completion and in order to maintain complete independence. The chapter has also not involved formal consultation with government, health providers or the WA Health Department, which a more comprehensive and exhaustive study would necessarily include.

The chapter's focus on public hospitals in WA has been chosen for two primary reasons. Firstly, information of reasonable quality and scope is publicly available on the efficiency and quality of public hospitals in WA. Data for the chapter was predominantly sourced from Australian Institute of Health and Welfare publications and the *Report on Government Services 2008*, published by the Productivity Commission. This data, combined with WA Health publications, provides a basis for the comparison of WA public hospitals with those in other states and territories according to a range of measures including effectiveness

and efficiency. The most up to date data set available at the time of writing that provides for comparisons between states is typically from 2005-06.

Secondly, the WA public hospital system has been chosen on the basis that responsibility for it falls entirely within the policy control of the WA Government (subject to funding conditions imposed through the Australian Health Care Agreement).

Compiling a chapter constrained to publicly available data has obvious limitations. However, this constraint plausibly provides insight into the extent to which the WA public hospital system is transparent and accountable in terms of its performance and quality. The scope of findings from this chapter are analogous to the conclusions that an average WA patient can draw about health services they might choose to access based on publicly available data. This constraint does impose limits on the extent of possible conclusions.

This chapter deliberately focuses on issues concerning the efficiency and transparency of reporting in relation to WA public hospitals. It does not deal directly with other significant issues which could easily constitute the basis for a single investigation. Important issues in WA health policy not canvassed in this chapter include, but are not limited to, indigenous health, rural and remote health service delivery, emergency department access and elective surgery waiting times. That this chapter does not consider these and other important issues in detail does not reflect upon their relative importance to WA.

Part one

WA public hospitals—An average hospital system?

Health expenditure by the WA Government, particularly on hospital services, consumes a substantial portion of the state budget and in recent years has been growing rapidly. According to Australian Institute of Health and Welfare (AIHW) data, total recurrent health expenditure in WA from all sources of funds grew at an annual rate of 7.7 per cent between 2003-04 and 2005-06.¹

Expenditure by the WA Government on health care services is budgeted to be in excess of \$4.5 billion in 2008-09, representing a 5.8 per cent increase on 2007-08. Of this expenditure, admitted patient services, which represent WA hospital costs, are budgeted at more than \$2.5 billion.² On these figures, total health care expenditure represents almost 25 per cent of the WA Government's total budgeted expenses of \$18 billion. Hospital services consume in excess of 50 per cent of WA Government expenditure on health.³ The hospital services funded by the WA Government therefore represent one of the largest expense items facing the WA Government and Western Australians in general.

As an illustration of the growing significance of expenditure on public hospitals in WA, total expenditure (from all sources) on public hospitals in WA increased by almost 20 per cent, from \$1,865 million in 2003-04, to \$2,244 million in 2005-06.⁴ Around 65 per cent of this increase was directly borne by the WA Government rather than the Australian Government or private sources.

Between 2003-04 and 2005-06 the proportion of WA public hospital funding provided by the Australian Government fell markedly from 48.3 per cent to 42.9 per cent. This fall was, in part, made up by the WA Government, whose contribution rose from 48 per cent to 50.9 per cent. This represented an increase of 27 per cent in WA Government expenditure on public hospitals to \$1,141 million. Over the same period the total funding from non-government sources doubled to \$140 million to make up 6.3 per cent in 2005-06.⁵

As with other states and territories, the Australian Government makes a substantial contribution to the funding of public hospitals in WA. This funding is provided under the Australian Health Care Agreement (AHCA). Like other states, the funding of public hospitals has been an increasing burden on the WA Government.

While some of the figures quoted above exclude government expenditure on public patients treated in private hospitals, other data reveals that between 2003-04

and 2005-06 the WA Government increased the amount it spent treating public patients in private hospitals by 20 per cent to \$202 million.⁶

The increasing cost that public hospital services represent for the WA Government emphasise how important the performance of the sector is for the long term fiscal viability of the state government budget, to say nothing of the health and wellbeing of West Australians. It is in the interests of every Western Australian that the public hospital system provides value for money while achieving quality and safety standards.

As at 30 June 2006, the population of WA was estimated at just over two million people or approximately 9.9 per cent of Australia's population.⁷ WA is by far the most sparsely populated state with an average of only 0.8 people per square kilometre compared to an average of 2.6 people per square kilometre for Australia as a whole.

Almost 8 per cent of WA's population lives in areas classified as remote or very remote. This compares with just 2.3 per cent of Australia's total population. WA also has a significant indigenous population resident throughout the state. Hence WA faces a significant challenge in the delivery of health services, particularly public hospital services to remote areas. While these are recognised as significant issues, they are not the focus of this chapter.

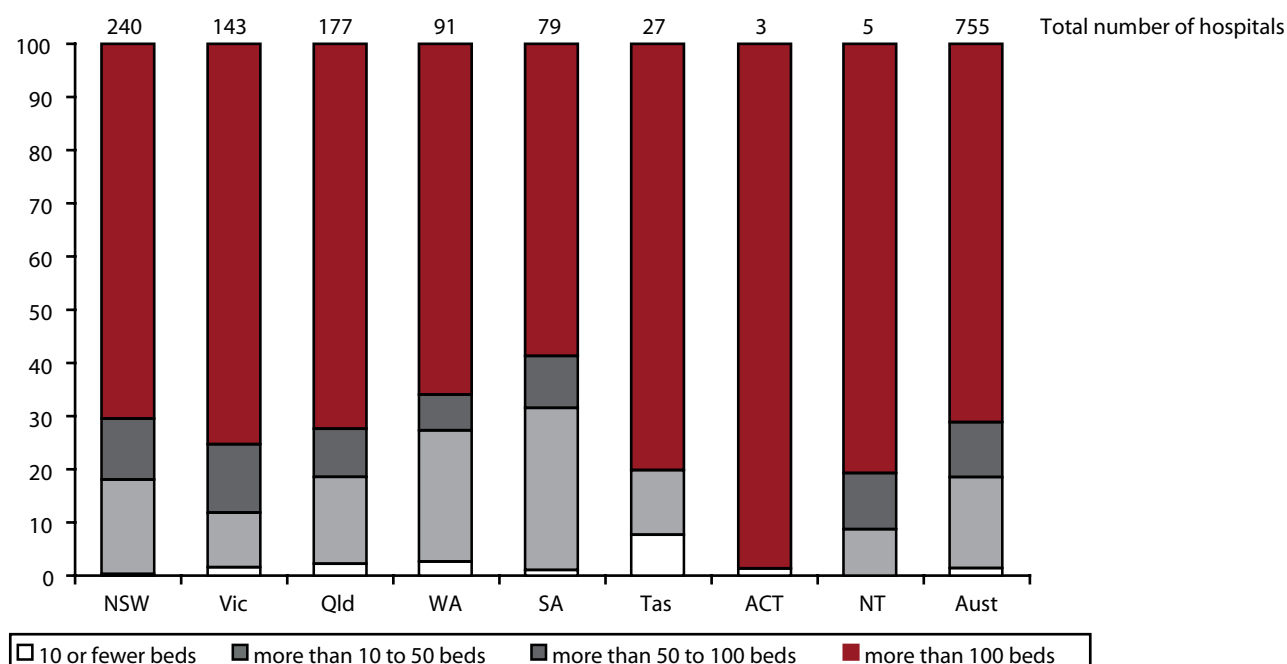
Profile of public hospitals in WA

There are now 95 public hospitals in WA.⁸ It is important to note that this figure and much of the publicly available data on public hospitals in WA excludes both the Joondalup and Peel Health Campuses. These hospital operations are run by private operators who were first contracted to provide public hospital services on an ongoing basis under the then Court Government. These hospitals continue to be contracted to the WA Government to provide services to public patients.

According to AIHW figures in 2005-06, the 91 public hospitals in WA had 4,984 available beds (including psychiatric hospitals).⁹ This figure excludes the beds available to public patients through the Joondalup and Peel Health Campuses. If these two campuses are included a further 409 beds were available to public patients.

As noted earlier, WA is a sparsely populated state with unique challenges in Australia in terms of the delivery of health services in remote locations. The distribution of beds by size of hospital, as shown in Figure 1,

Figure 1: Available Public Hospital Beds by Hospital Size, 2005-06, %



Note: WA figures exclude beds in private hospitals that provide services to public patients. Includes psychiatric hospitals.
Source: Report on Government Services 2008, Productivity Commission.

reflects this.

According to Figure 1, WA has one of the least concentrated public hospital systems in Australia. In 2005-06, only 66 per cent of the available public hospital beds in WA were in hospitals with more than 100 beds. On this measure WA is second only to South Australia (58.7 per cent) for the tendency to have hospital beds in hospitals with fewer than 100 beds. WA is also lower than the Australian average of 71.1 per cent and as an example, even lower than Victoria¹⁰ at 75.3 per cent.

The measure of available beds in hospitals with fewer than 50 beds confirms that the WA public hospital system is diffuse relative to public hospital systems in other states. On average across Australia, 18.6 per cent of public hospital beds are in hospitals with fewer than 50 beds. WA has the second highest proportion of beds in smaller hospitals with 27.3 per cent.

To illustrate what this means for the distribution of hospital beds in WA, if WA were to add beds into larger hospitals to match the proportion of beds that Queensland¹¹ has in hospitals with more than 50 beds it would entail opening a further 435 beds in hospitals with more than 50 beds. This figure represents approximately 10 per cent of the total number of available overnight beds in all of WA in March 2007, or almost 15 per cent of the overnight beds available in metropolitan Perth.¹²

These figures confirm that the delivery of health ser-

vices in remote areas is a challenge for the WA Government, and further, that it is likely to have cost, quality and service availability implications in public hospitals unable to achieve critical mass and/or economies of scale. These figures also raise the question of whether optimal trade-offs are currently being made between the provision of hospital services and the use of communications to deliver health services and/or the transportation of patients to larger hospital centres for treatment.

The public hospital bed profile in WA does not include the hospital beds available to public patients at Joondalup and Peel Health Campuses. If beds at these facilities available to public patients are included, the number of beds in WA public hospitals with more than 100 beds increases only slightly from 66 per cent to 68.5 per cent. Even after this adjustment (compared to the Australian average of 71.1 per cent) WA still appears to have smaller than average hospitals.

Part two

WA public hospitals—Highly available?

According to AIHW data the number of available public hospital beds per 1,000 people in WA has been decreasing relative to the average across Australia since 2001-02. This is shown in Figure 2.

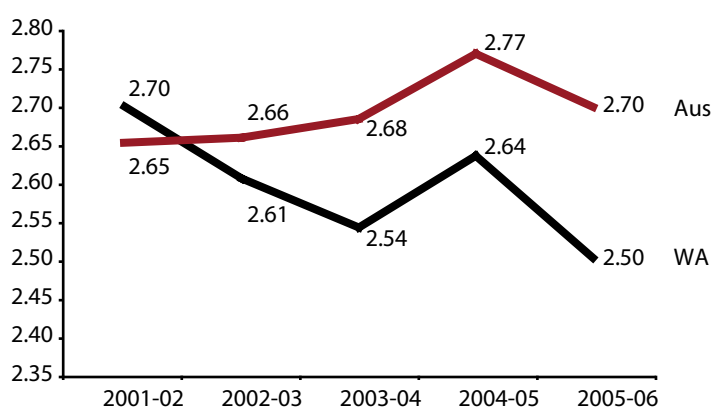
Figure 2 shows that the number of available public hospital beds in WA has decreased from 2.7 for every 1,000 people in 2001-02 to 2.5 in 2005-06. This would imply that if Western Australian residents are receiving the same standard of care as that of residents in other states, all else being equal, that WA public hospitals are more efficient. Specifically they either admit patients at a lower rate and/or treat patients in a shorter time frame.

It should however be noted that if public hospital beds available at the Joondalup and Peel Health Campuses are included the number of available beds in WA per 1,000 people in 2005-06 rises to 2.7.¹³ On this basis the public hospital beds available in WA is equal to the Australian average.

More recent data released by the Australian Government's Department of Health and Ageing, shown in Figure 3, suggests that the number of public hospital beds in WA is in fact above the Australian average.¹⁴

According to Figure 3 in 2006-07 the number of public hospital beds in WA per 1,000 of weighted population was 2.7 compared with the Australian average of 2.6. On this basis, WA has the third highest availability of public hospital beds of any state or territory in Australia. Given that the distribution of hospital beds continues to favour smaller facilities, as shown earlier, these beds are not necessarily effectively used. Recent data published by WA Health appears to confirm this. There are more than 1,200 overnight beds available in country areas of WA. Over the last two years these beds have had average occupancy rates no higher than 52 per cent. This compares with the 3,000 or so overnight beds in metropolitan areas which have had average occupancy rates consistently above 90 per cent.¹⁵

Figure 2: Available Beds in Public Hospitals Per 1000 People



Note: WA figures exclude beds available to public patients at Joondalup and Peel Health Campuses, total for WA is 2.7 in 2005-06 if these beds are included.

Source: Report on Government Services 2008, Productivity Commission.

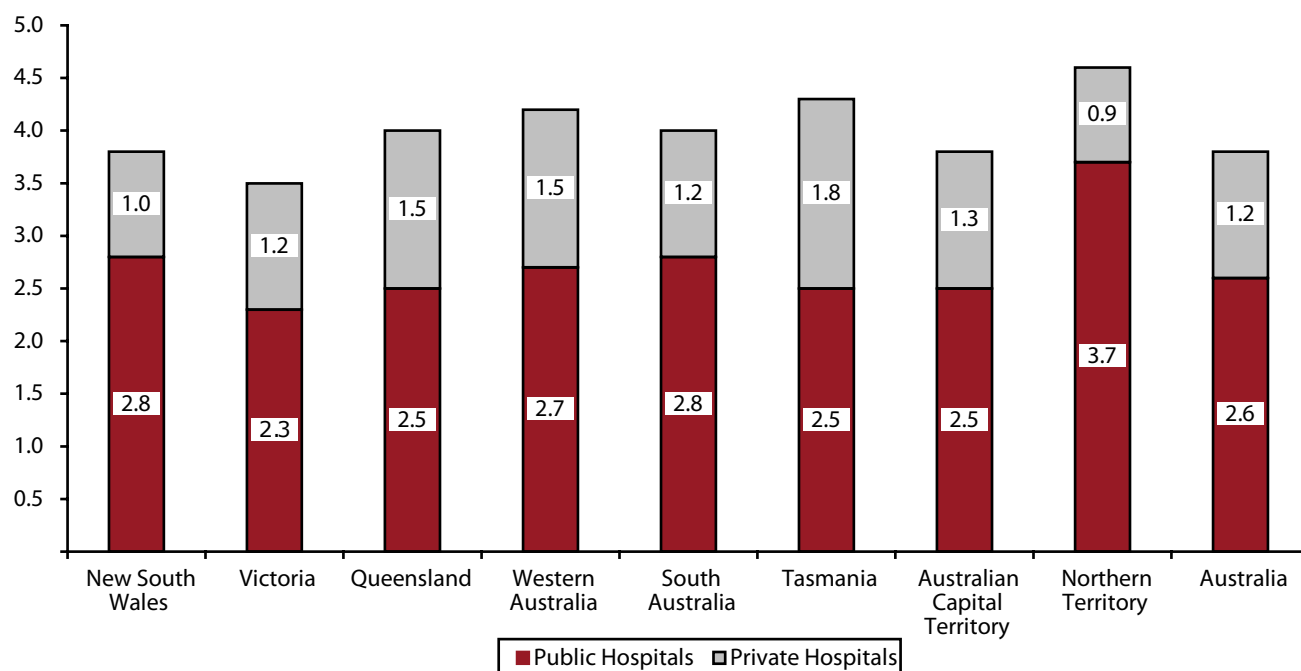
Figure 3 also reveals an interesting aspect of the WA hospital system. WA is behind only Tasmania and Queensland in the number of private hospital beds per head of population. Not all of these are used to treat public patients.

Figure 3, although sourced from a different publication to Figure 2, appears to have been prepared on a comparable basis.¹⁶ Assuming this is correct, the available public hospital beds at Joondalup and Peel Health Campuses suggest that, relative to other states, WA has a high number of hospital beds available to public patients. Furthermore, WA has increased the number of available beds per head of population in recent years despite the average across Australia declining. This might reflect the increasing investment in hospital facilities in WA over more recent times.

If the beds available through the Joondalup and Peel Health Campuses are included and classified as metropolitan beds, Figures 4 to 6, which exclude these beds, suggest that WA has a lower availability of hospital beds than the Australian average outside of metropolitan areas. Further, this appears to have been the case for sometime. (See Figures 4 to 6)

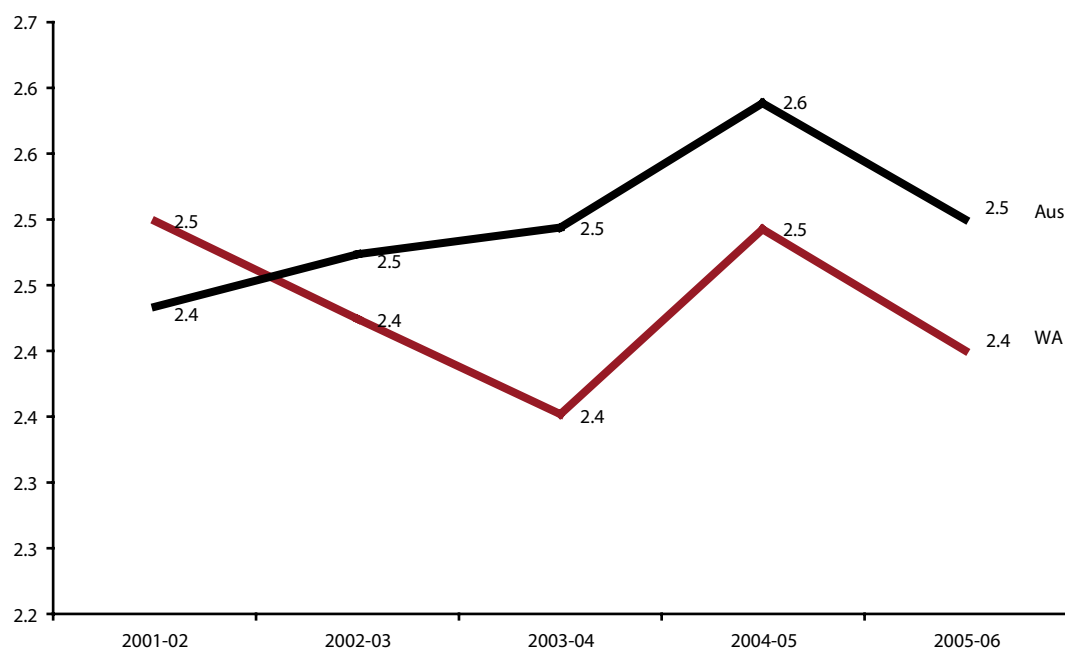
If the beds available at Joondalup and Peel Health Campuses are included the number of beds per capita in Western Australia in 2005-06 was the same as in 2001-02. Together with Figure 4 this implies that there are now more public hospital beds available (including those privately provided) in metropolitan areas than in 2001-02. It also implies that in contrast to regional and remote areas where WA bed availability is below the Australian average, in the Perth metropolitan area (including privately provided beds) the availability of public hospital beds is high relative to other metropolitan areas throughout Australia, and may even be the highest.

Figure 3: All Hospitals—Average Available Beds per 1,000 Weighted Population, States and Territories, 2006-07



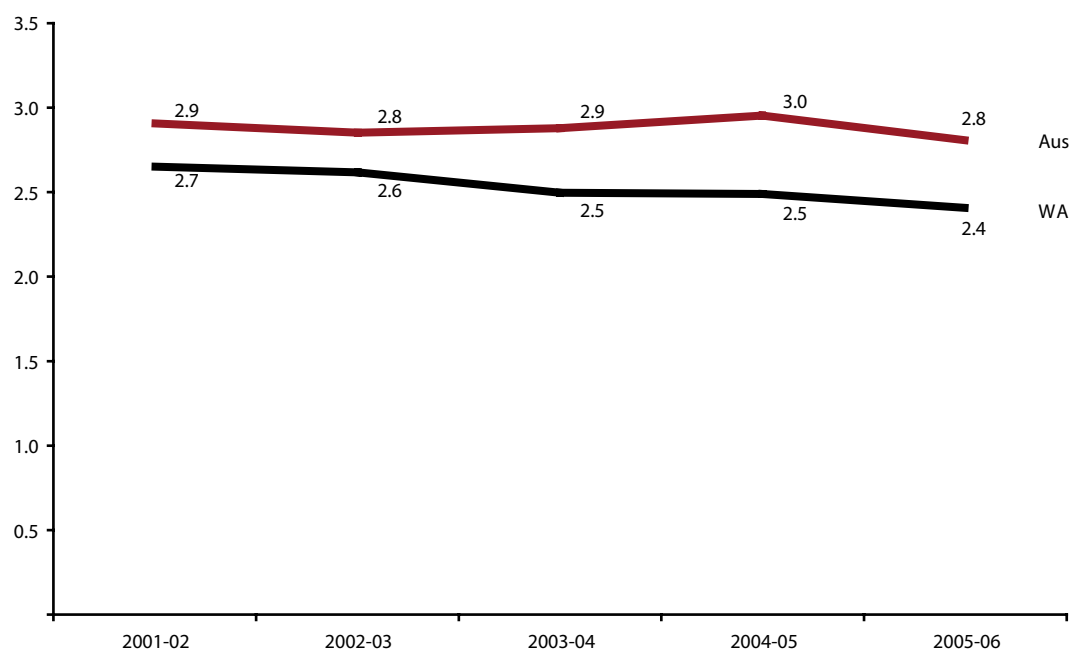
Source: The State of Our Public Hospitals, June 2008 Report, Department of Health & Ageing, Australian Government.

Figure 4: Available Beds in Public Hospitals in Metropolitan Areas Per 1,000 People



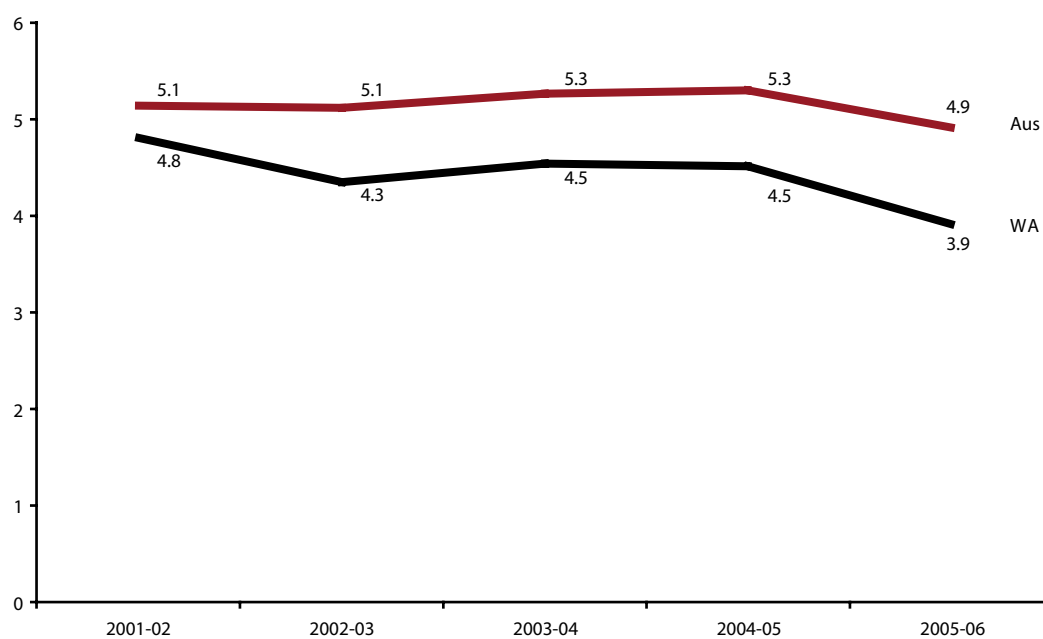
Note: WA figures for 2005-06 exclude beds available to public patients at Joondalup and Peel Health Campuses. If these are included WA is higher than Australian average in 2005-06.
Source: Report on Government Services 2008, Productivity Commission.

Figure 5: Available Beds in Public Hospitals in Regional Areas Per 1,000 People



Note: WA figures exclude beds available to public patients at Joondalup and Peel Health Campuses.
Source: Report on Government Services 2008, Productivity Commission.

Figure 6: Available Beds in Public Hospitals in Remote Areas Per 1,000 People



Source: Report on Government Services 2008, Productivity Commission.

Part three

WA public hospitals—Less frequently separated?

In 2005-06, WA had a below average rate of public hospital separations at 195.7 public hospital separations per 1,000 people compared to the Australian average of 212.8. This is shown in Figure 7.

Figure 7 shows that the rate of public hospital separations in WA increased by less than 5 per cent over the five year period from 2001-02 to 2005-06. Over the same period, the average public hospital separation rate across Australia increased roughly in line with WA.

The rate of public hospital separations in WA was consistently lower than the Australian average, even after adjustment for the variation in age profiles between states. Of all states and territories, only Tasmania had a lower separation rate than WA in 2005-06 and was less than 2 per cent below WA.

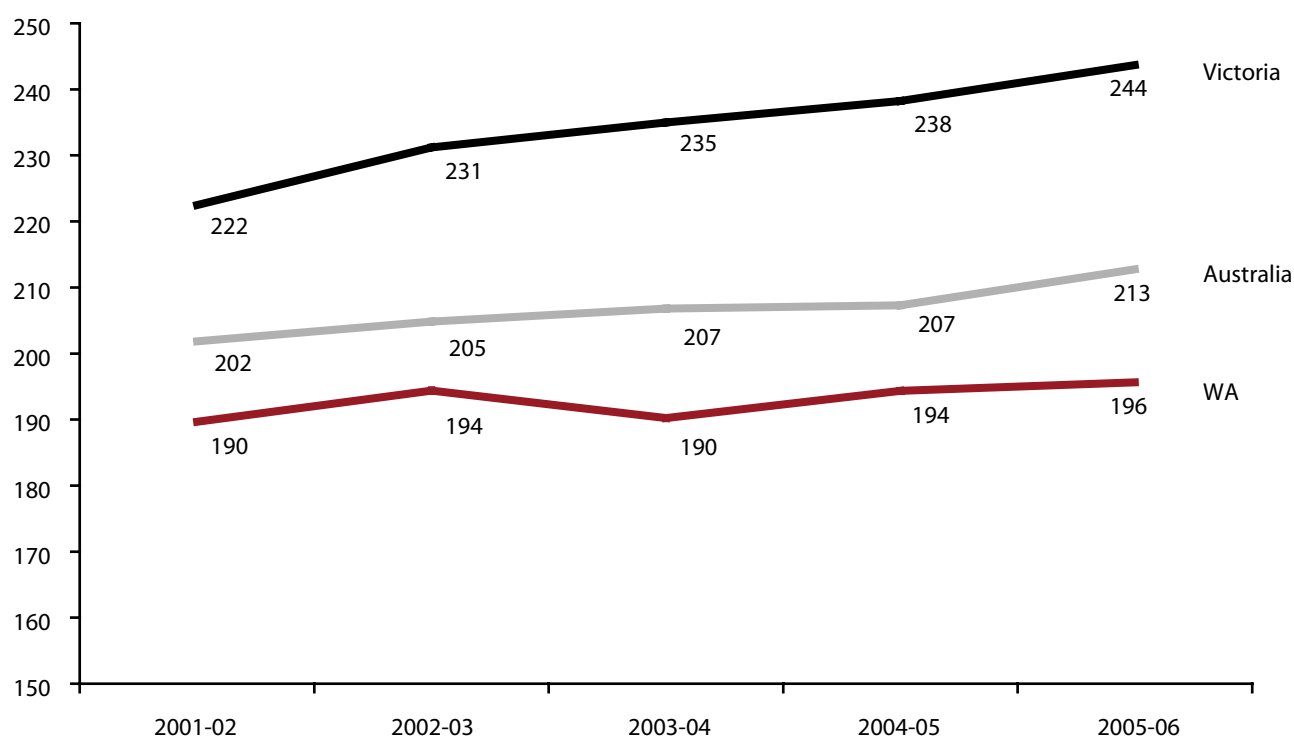
The lower separation rate in WA might reflect a greater use of hospital-in-the-home treatment in WA

than elsewhere. However, according to recently published data, hospital-in-the-home services represented less than 1 per cent of public hospital separations in WA.¹⁷ This compares with more the same service making up more than 3 per cent of separations in Victoria.

The separation rate in WA is likely to be underestimated because public patients who receive treatment as public patients in private hospitals, as with other similar data, are assumed not to be included.

The lower than average separation rate in WA combined with the relatively high number of available hospital beds in the Perth metropolitan area might suggest hospital resources are not optimally allocated or managed. Consideration of additional data will further inform this view.

Figure 7: Total Public Hospital Separations, Rate per 1,000 people



Note: Rates per 1,000 people are directly age standardised to the Australian population at 30 June 2001.
Excludes Private Hospitals serving public patients and psychiatric separations.
Source: Report on Government Services 2008, Productivity Commission.

Part four

One measure of efficiency—No sleepovers or kicking the patient out

The proportion of public hospital separations which are same day and do not involve an overnight stay is a possible proxy for efficiency in public hospital treatment. Figure 8 shows the trend of same day separations in WA public hospitals. As a proportion of all separations, same day separations in 2005-06 made up 50.8 per cent of public hospital separations in WA. This put WA above the Australian average of 49.7 per cent. While WA is above average on this measure it performs well below other states. For example, Figure 8 shows that Victoria, with 55.9 per cent in 2005-06, has consistently maintained a proportion of same day separations more than 5 per cent above WA. Some of this may be attributable to the higher use of hospital-in-the-home services in Victoria. However, as much as 3 per cent or three fifths of the difference remains to be explained. It is an open question as to whether Victorian public hospitals are more efficient at treating patients or have a markedly different patient profile to WA public hospitals.

Some of the difference in the rate is likely to be attributable to WA patients treated as public patients in private

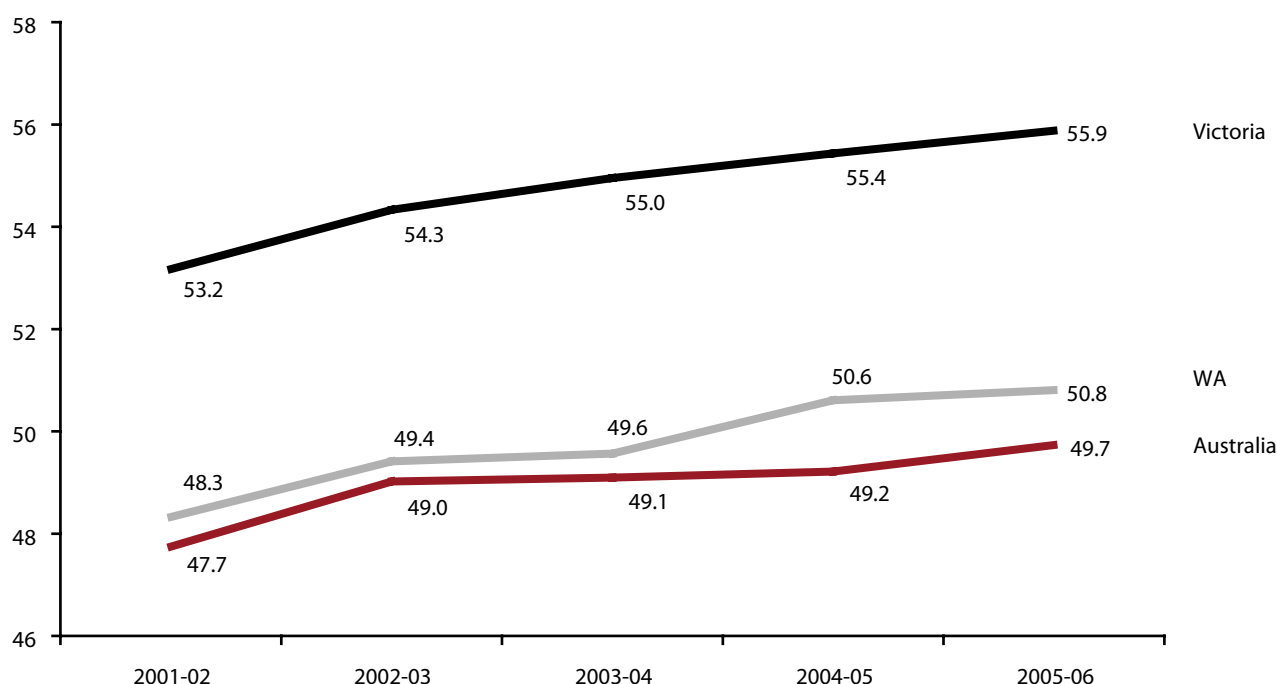
hospitals. The rate of same day admissions in WA private hospitals in 2006-07 was 62 per cent.¹⁸ Given the secondary rather than tertiary nature of the services provided to public patients by private hospitals in WA, this is likely to explain some of the differential rates.

Despite this plausible explanation, the differential merits further investigation given that it has risen over time across Australia, Victoria and WA. Recently published data for 2006-07 suggests that the same day separation rate in public hospitals in WA has further increased to 52 per cent while Victoria has held relatively constant at 56 per cent.¹⁹

Given improvement has been observed in the past, the remaining 4 per cent differential rate between WA and Victoria may represent a significant potential efficiency for public hospitals in WA.

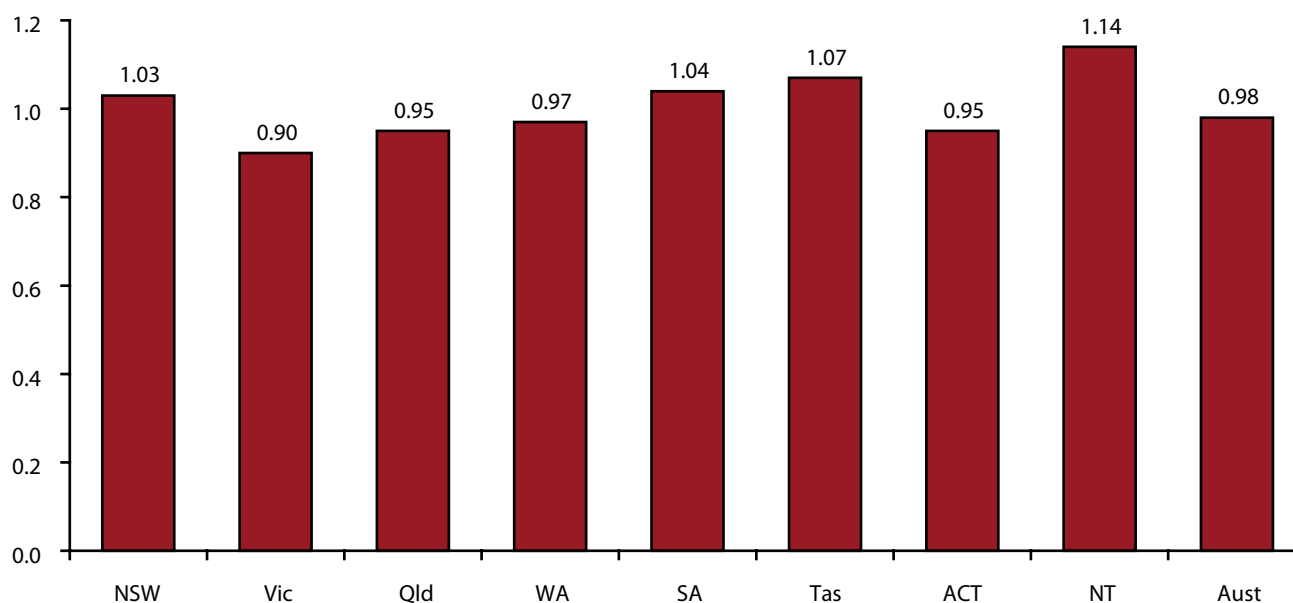
The 'relative stay index' is a further indicator of the relative efficiency of public hospitals. Unlike the measure of same day separations, the relative stay index accounts for the varying case mix of hospitals in each state and territory but does not adjust for other factors that may be relevant.

Figure 8: Same Day Public Hospital Separations, % of Total



Note: Only public hospital separations, excludes psychiatric separations.
Source: Report on Government Services 2008, Productivity Commission.

Figure 9: Relative Stay Index All Patients in Public Hospitals, 2005-06



Source: Report on Government Services 2008, Productivity Commission.

The relative stay index of WA public hospitals compared to other state and territories is shown in Figure 9. The 'relative stay index' for all public hospital patients in WA shown in Figure 9 commends the efficiency of public hospitals in WA. According to the construction of the index, an index value less than 1 suggests WA public hospitals are more efficient at managing length of stay for their case mix than would normally be expected.

Figure 9 shows that WA public hospitals, with a relative stay index of 0.97 perform close to average for public hospitals in Australia (0.98) relative to the expectations for their case mix. However, WA public hospitals are only performing close to average. On this measure they do not appear to be achieving best practice. In comparison to WA, Victoria achieves a relative stay index of 0.90, almost 10 per cent below that of WA.

It is a moot point as to whether the comparative health outcomes of Victorian public hospitals compared to WA public hospitals betrays any detrimental effects from Victoria's low relative stay index and the efficient performance implied therein.

A comparison of the relative stay index in WA public hospitals by diagnosis group with other states and territories (see Figure 10) endorses the earlier hypothesis that WA public hospitals have room for improvement.

Although WA public hospitals may be more efficient than the average for Australia on this measure, they do

not appear to be achieving the shortest stays on any type of treatment when compared to other states and territories.

Figure 10 suggests that the performance of WA public hospitals is approximately what is expected for the case mix in WA public hospitals. For medical diagnoses, WA achieves a relative stay index of 0.96. The ACT, Queensland, and Victoria all achieve lower index values on this medical measure.

When WA is compared with Victoria²⁰ there is a sizeable difference between both medical diagnosis and other diagnosis types. On surgical diagnoses, WA public hospitals are only marginally less efficient than Victoria and the ACT, and more efficient than all other states and territories.

On balance, there appears to be an opportunity to achieve greater efficiencies in treating medical diagnoses on the basis that Victorian public hospital figures are substantially lower. In general, the performance of WA public hospitals in achieving efficiencies through length of stay appears to be slightly above average.

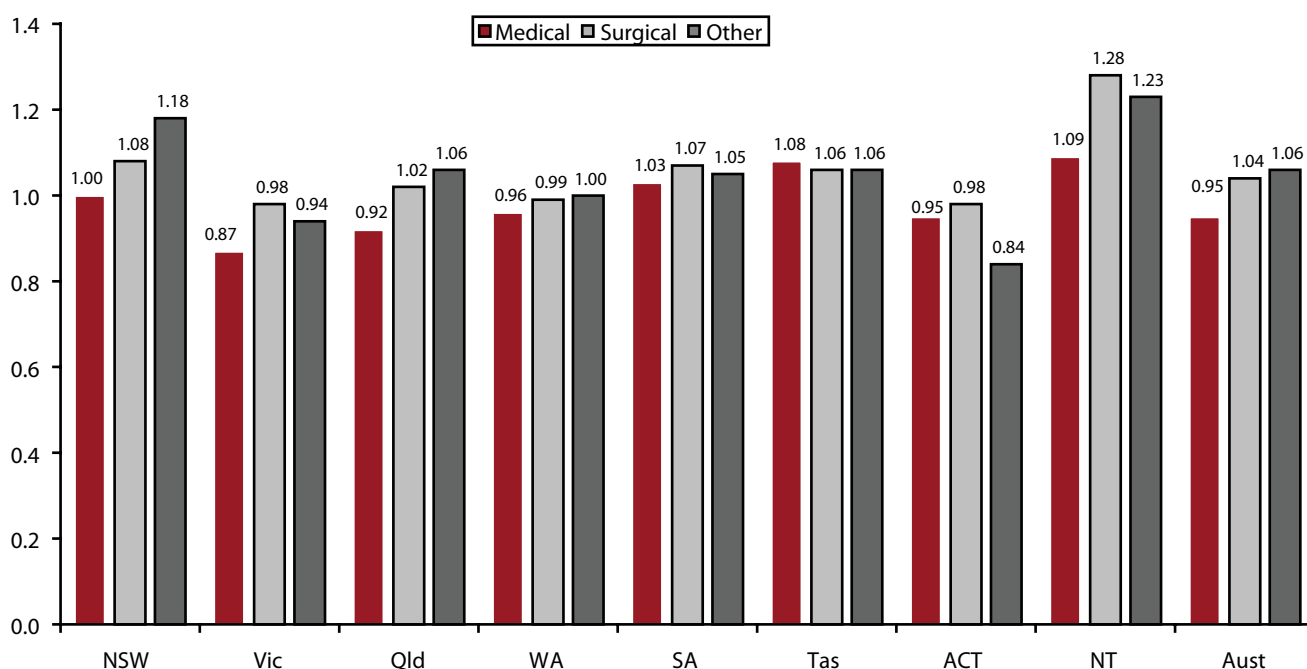
The above discussion is subject to qualifications concerning the available data. The classifications of patients as same day admitted patients or outpatients varies between states. This variation affects the comparability of both the rate of same day admissions and the relative stay index. In 2005-06, WA public hospitals (including public patient ac-

tivity at Joondalup and Peel Health Campuses) provided 4.48 million non-admitted occasions of service.²¹ Based on the proportion of all occasions of service made up by the ten most common types of non-admitted patient care it appears unlikely, though it is a matter for judgement, that the measures evaluated in the preceding discussion would not be significantly distorted by the classification of outpatients in WA relative to public hospital systems in other states and territories.²²

An additional measure of efficiency and quality is the rate of unplanned readmissions. According to unpub-

lished data from the Australian Council on Healthcare Standards (ACHS), the rate of unplanned readmissions in those WA public hospitals reporting to the ACHS is below the rate of public hospitals in other states and territories. Although this data is not strictly comparable, the rate in WA (inclusive of the standard error) is outside the values (also inclusive of standard error) of other states and territories.²³

Figure 10: Relative Stay Index All Patients in Public Hospitals, 2005-06



**Note: The relative stay index as shown is indirectly standardised.
Source: Report on Government Services 2008, Productivity Commission.**

Part five

WA public hospitals—Costly, but only slightly more than average

Expenditure on public hospitals makes up a significant portion of the WA Government budget as discussed earlier. Hence, cost efficiency and value for money are obviously important principles in assessing the performance of WA public hospitals. This consideration in no way diminishes the importance of other measures of quality and performance, but it is difficult to argue that public hospitals should not deliver value for money, however measured.

WA public hospitals, in terms of cost per case mix adjusted separation, are only marginally more costly than the Australian average. Cost per case mix adjusted separation is calculated using the total cost divided by the number of separations adjusted to account for the relative complexity of different episodes of care. This measure provides for a reasonable comparison of hospital cost efficiency between jurisdictions based on the specific types of medical cases encountered rather than merely average case mixes.

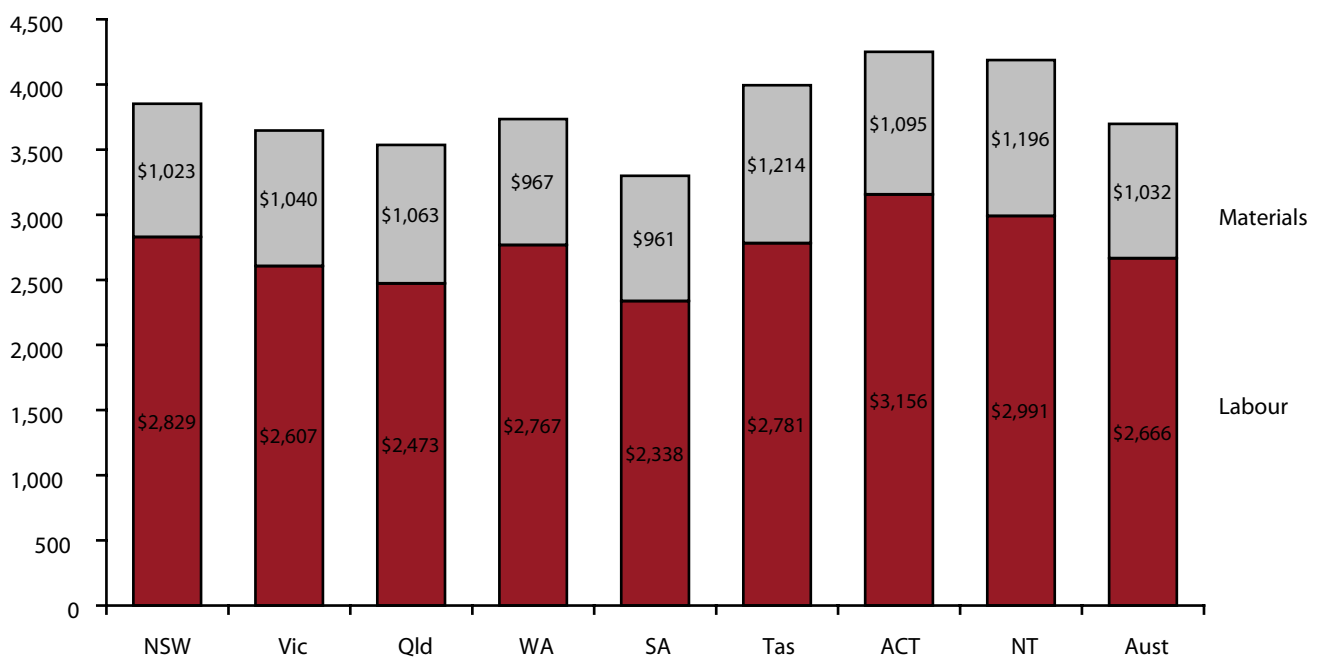
The total recurrent cost per case mix adjusted separation for WA public hospitals (labour and materials) in 2005-06 was \$3,734, as shown in Figure 11.

WA compares somewhat favourably with the Australian average of \$3,698 per case mix adjusted separation. WA public hospitals are only 1 per cent above the average cost per case mix adjusted separation for public hospitals across Australia.

The 2008 WA Budget Papers for WA Health²⁴ estimate that the average cost of an admitted public patient treatment episode in private hospitals was \$2,092 in 2007-08. This compared to an estimated average cost per case mix adjusted separation for non-teaching hospitals in the same period of \$4,825. Despite these figures not being directly comparable they suggest a large cost efficiency difference between public and private hospitals in treating public patients. The significance of this differential will be further discussed later in the chapter.

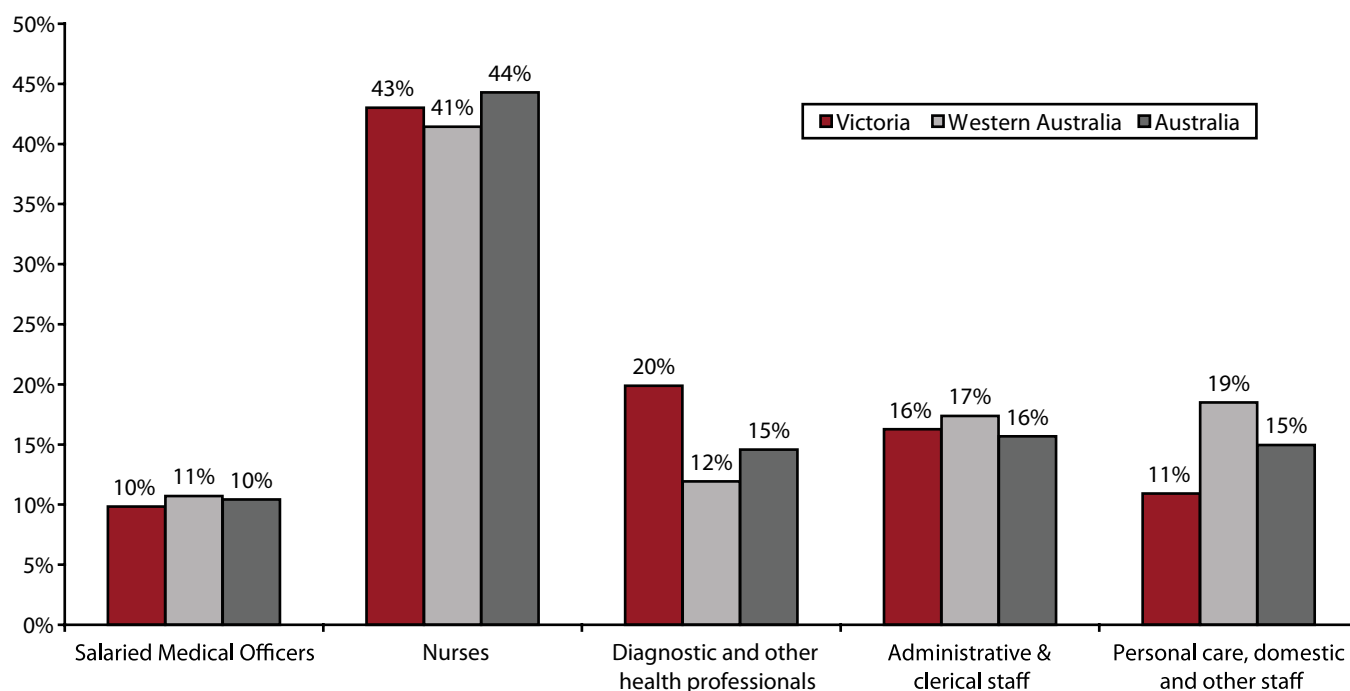
Figure 11 shows that in 2005-06 WA public hospitals were fourth lowest in terms of labour costs per separation. Labour costs in WA public hospitals were 4 per cent

Figure 11: Recurrent Cost (Labour and Materials) Per Case Mix Adjusted Separation for Selected Public Hospitals, 2005-06, \$



Note: Figures include selected public hospitals only, focussing on public hospitals providing acute care.
Source: Report on Government Services 2008, Productivity Commission.

Figure 12: Proportion of Total FTE Staff in Public Hospitals by Designation, Selected States, 2006-07, %



Source: The State of Our Public Hospitals, June 2008 Report, Department of Health and Ageing, Australian Government.

above the Australian average in 2005-06, 12 per cent higher than Queensland and 6 per cent higher than Victoria. Given the labour market pressures being felt across the WA economy, labour costs may have increased relative to other states since this time. Medical labour costs in WA public hospitals per case mix adjusted separation in particular were 7 per cent higher in 2005-06 than the average for Australia.²⁵

The relative makeup of the WA public hospital workforce varies compared with the average across Australia and particularly in relation to Victoria, which achieves lower labour costs per separation than WA. As Figure 12 shows, in 2006-07, WA had a slightly higher proportion of its public hospital workforce in administrative and clerical roles and a substantially higher proportion of staff in roles designated as personal care, domestic and other staff.

Relative to both the Australian average and Victoria in 2006-07, WA had a lower proportion of the public hospital workforce made up of nurses and diagnostic and other health professionals. The WA workforce distribution differential shown in Figure 12 across workforce classifications may be a factor contributing to the higher than average labour cost per separation for WA public hospitals. This would appear to be an area worthy of further consideration in the pursuit of greater cost efficiency.

In contrast to its relative labour costs, on material costs per case mix adjusted separation WA public hospitals were the second lowest in Australia being 6 per cent lower than the Australian average. Only South Australia was lower.

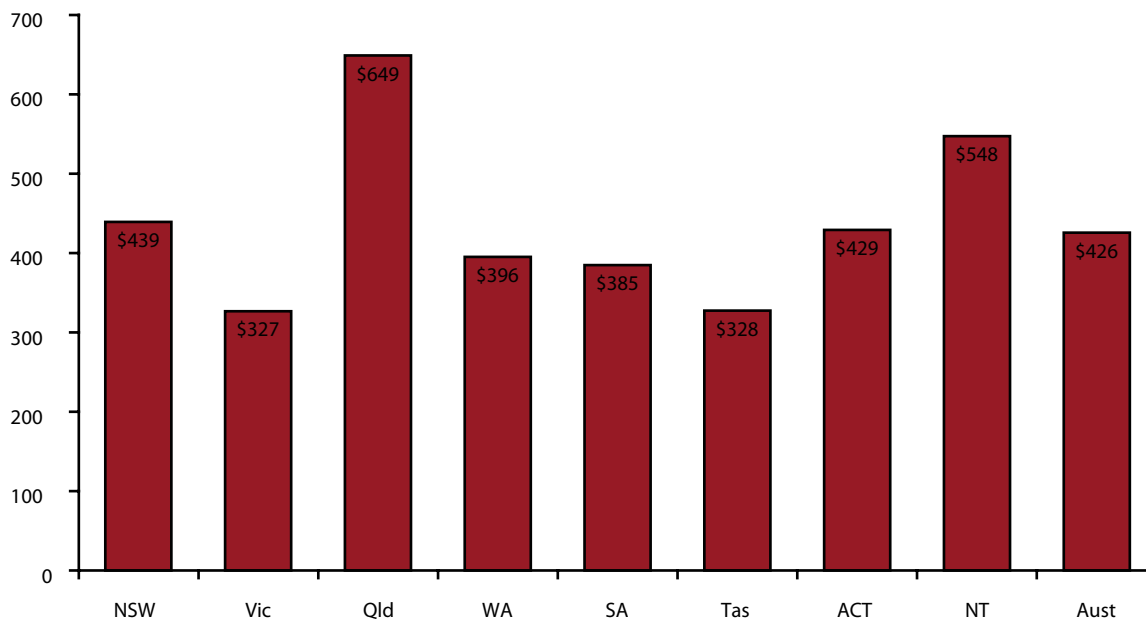
If Victoria is used as the benchmark, WA costs (labour and materials combined) could improve by around 2.3 per cent across the hospital system, assuming that labour costs can be reduced through productivity improvements rather than lower salary costs.

As shown in Figure 13, in comparison with other states and territories, in 2005-06, WA had the fourth lowest capital cost per case mix adjusted separation at \$396 per separation.

The capital cost in WA public hospitals was approximately 5 per cent below the average for Australia at \$426. The 2005-06 Australian average may not be representative of the capital efficiency that is possible in public hospitals, as it includes two outliers in Queensland at \$649 and the Northern Territory at \$548. Given the significant capital program being undertaken by the WA Government there is a risk that the capital efficiency of WA public hospitals will deteriorate if these investments do not most effectively address capacity needs.

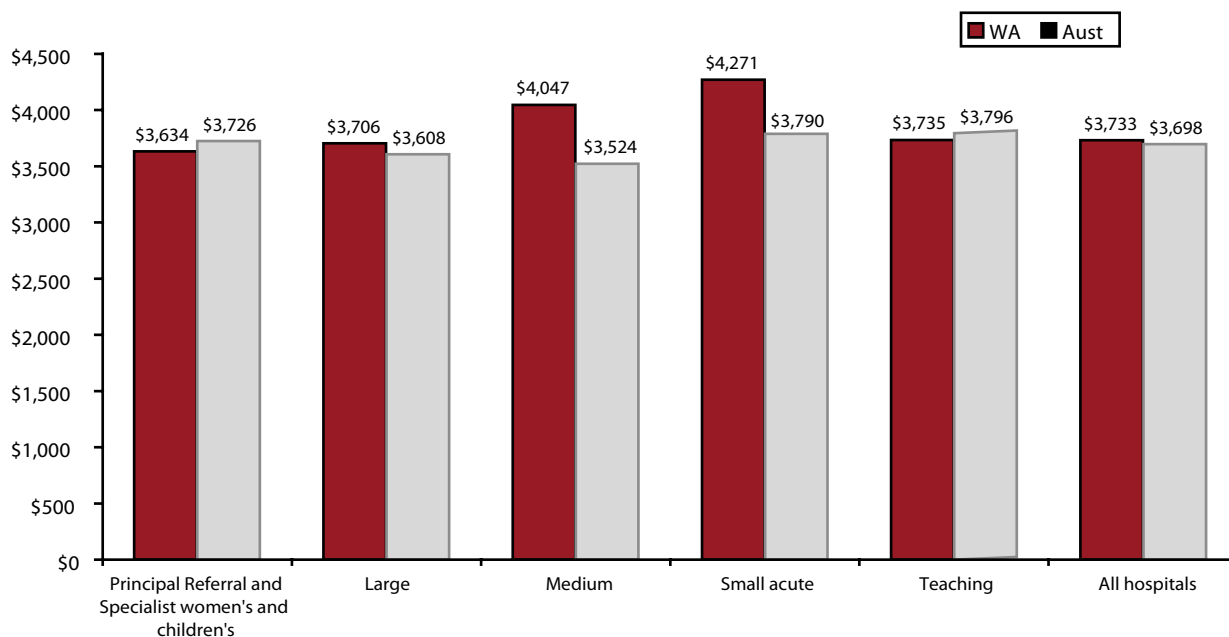
On a combined measure of recurrent and capital costs

Figure 13: Capital Cost Per Case Mix Adjusted Separation for Selected Public Hospitals 2005-06, \$



Source: Report on Government Services 2008, Productivity Commission.

Figure 14: Recurrent Cost per Case Mix Adjusted Separation by Hospital Peer Group, 2005-06, \$



Note: Medium denotes a hospital with between 2,000 and 10,000 acute weighted separations. Small is less than 2,000 acute weighted separations. Large includes regional hospitals with more than 8,000 acute weighted separations and remote hospitals with more than 5,000.

Source: Report on Government Services 2008, Productivity Commission.

per case mix adjusted public hospital separations WA (\$4,130) performs very close to the Australian average (\$4,124). On this measure, the total case mix adjusted cost per separation for WA is less than 1 per cent higher than the Australian average, further suggesting that the cost efficiency of WA public hospitals is reasonable but perhaps slightly less efficient than it might be compared to other states.

Comparing recurrent costs in WA public hospitals with the Australian average across hospital peer groups, as in Figure 14, WA exhibits varying performance.

Comparing principal referral and specialist women's and children's hospitals in WA (of which four were included in the analysis) with other similar hospitals across Australia, WA achieved a marginally lower cost per separation in 2005-06. Teaching hospitals in WA also achieve a cost per case mix adjusted separation slightly lower than the Australian average. In contrast, across large, medium and small acute hospitals, WA public hospitals are more expensive than the Australian average. This is particularly true for medium and small acute hospitals where the difference per separation is around \$500, equivalent to a differential of more than 10 per cent.

This sizable differential in part reflects the much lower bed occupancy rates achieved in hospitals outside of the

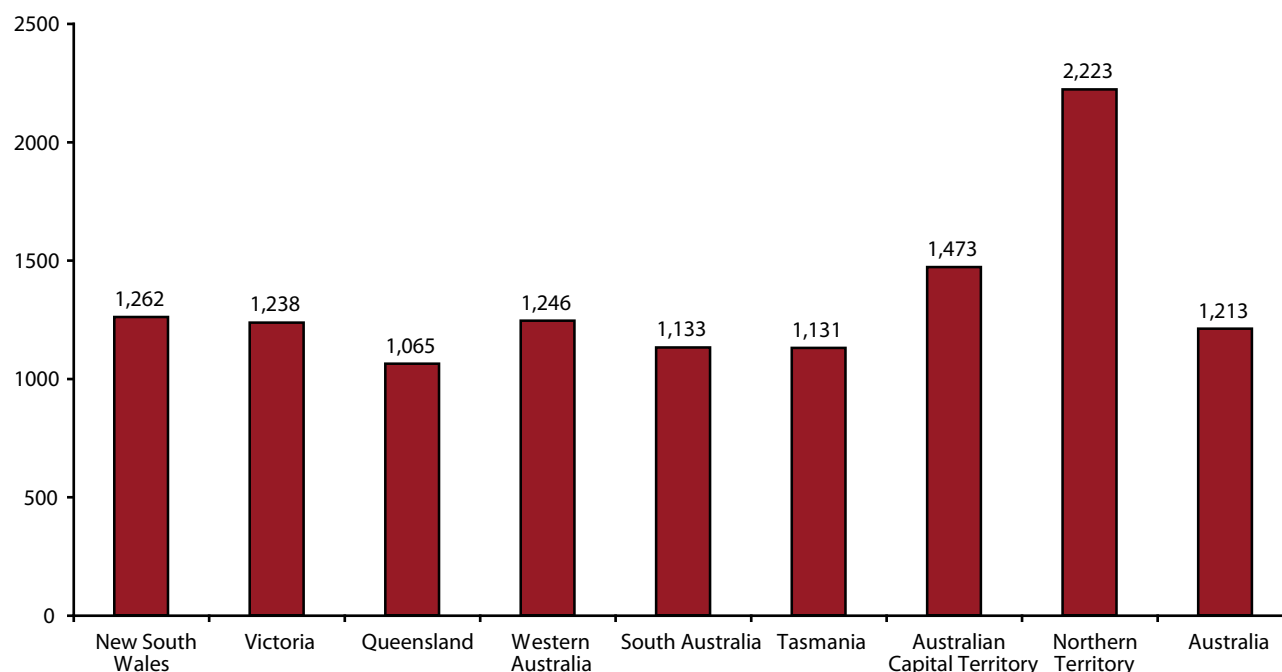
Perth metropolitan area, as described in the WA Health Performance Report. It may also be in part attributable to the unique challenges WA faces as a sparsely populated state in providing health services in non-metropolitan areas.

Figure 14 does suggest that there are hospitals in WA which are not operating as efficiently as the Australian average suggests is possible. This obviously has implications for the costs that the WA Government will bear in the future.

Overall in terms of public hospital costs based on more recent data, Figure 15 shows that in 2006-07 WA has a higher recurrent expenditure per person on public hospital services at \$1,246 than the Australian average at \$1,213.²⁶

According to this recent data, in 2006-07 WA spent more on public hospital services than all other states except NSW. Given the preceding analysis that suggests that relatively higher costs in WA may be attributable to particular hospital peer groups, it is arguable that the relatively higher costs may only reflect challenges in service delivery unique to WA, all else being equal.

Figure 15: Recurrent Expenditure per Person on Public Hospital Services, Weighted Population, States and Territories, 2006-07, \$



Source: The State of Our Public Hospitals, June 2008 Report, Department of Health and Ageing, Australian Government.

Part six

WA—A qualified endorsement of performance

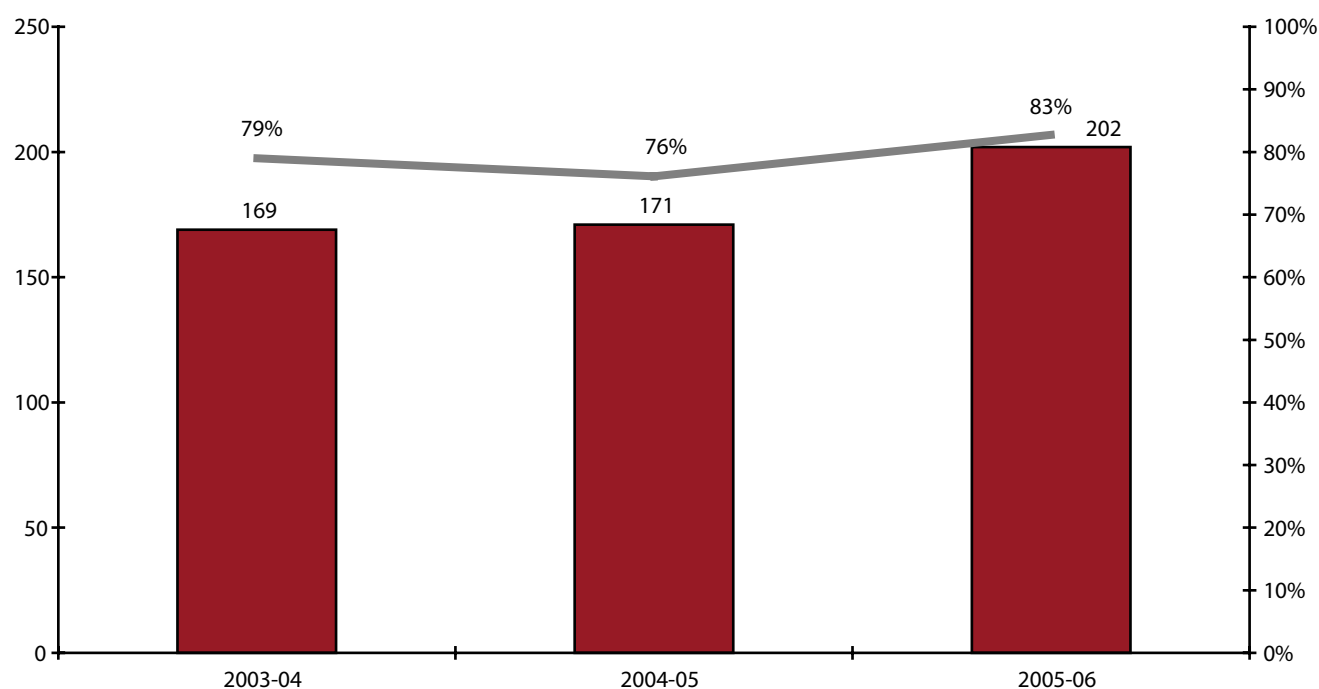
Based on the preceding assessment of a selection of publicly available data the WA public hospital system receives qualified endorsement. On none of the measures considered does it appear to be dramatically under-performing, with the possible exception of non-metropolitan bed occupancy rates and costs in smaller hospitals. Neither, however, on any of the performance measures does it appear particularly distinctive in its high achievement.

There are areas such as the distribution and availabil-

ity of hospital beds where it is plausible to interpret the data as suggesting that the public hospital system in WA is trading off efficiency for policy objectives such as health service provision in regional and remote areas, and ensuring the high availability of services.

The relatively different profile in WA public hospitals away from nurses and diagnostic professionals towards administrators and personal carers is also a fact that may be worthy of further investigation.

Figure 16: Total Expenditure on Private Hospitals by WA Government and Proportion of Total State Government Expenditure on Private Hospital Services by WA Government, 2003-04 to 2005-06, \$ million, %



Source: Health Expenditure Australia 2005-06, Tables A1-A3 and B10-B12.

Part seven

Initiatives for reform—Continued leadership in private provision

Despite the qualified, overall positive assessment of the WA public hospital system, there is one area in particular in which WA is undisputedly a leader in Australia. That leadership consists of the use of private hospitals to provide for public patients. While this is a legacy of the former Court Government, current investment and continued contractual relationships suggest that it continues to be a deliberate policy setting by the subsequent Gallop and Carpenter Governments.

Figure 16 demonstrates two important facts in relation to the use of private hospitals to treat public patients in WA.

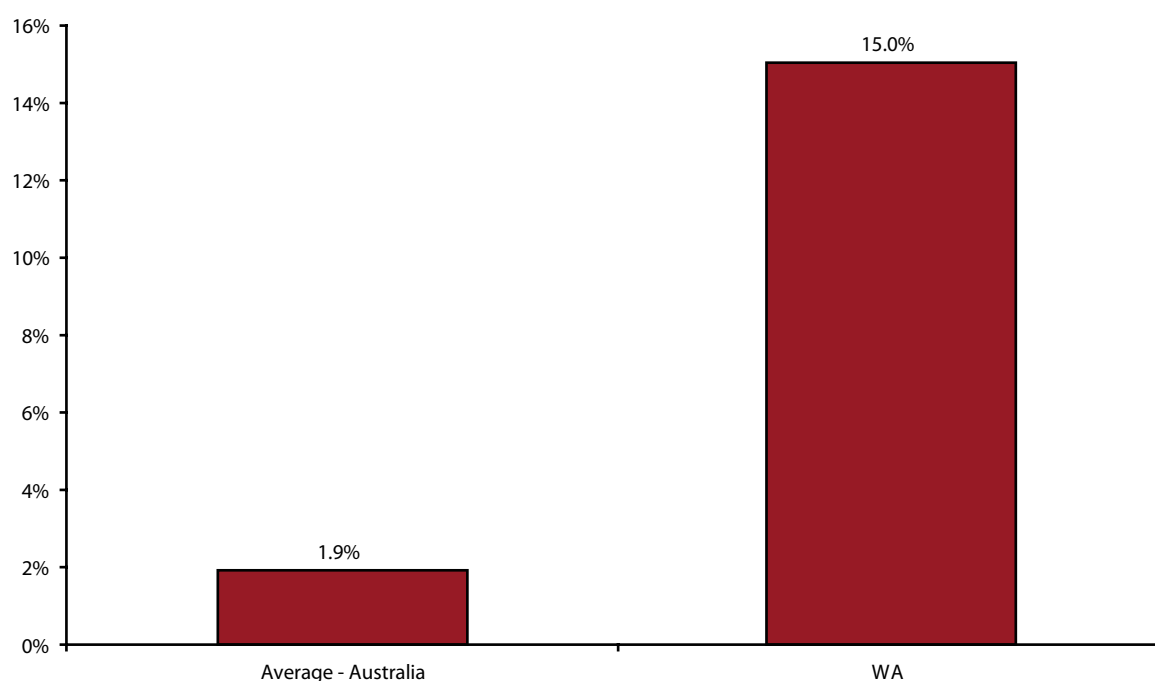
Over the period shown in Figure 16, expenditure on private hospitals by the WA Government to provide ser-

vices for public patients has been significant, starting at \$169 million in 2003-04. Expenditure on private hospitals by the WA Government subsequently grew by almost 20 per cent in the two years to 2005-06 to reach \$202 million.

Figure 16 also reveals the extent of the use of private hospitals by the WA Government compared with other state and territory governments around Australia. In 2005-06, of all expenditure by state and territory governments in Australia on private hospitals the WA Government was responsible for 83 per cent of the total.

Figure 17 further demonstrates WA's leadership in the use of private hospitals to care for public patients. In 2005-06, 15 per cent of WA Government expenditure

Figure 17: Proportion of State and Territory Government Total Hospital Expenditure on Private Hospitals, 2005-06, %



Source: Health Expenditure Australia 2005-06, Tables A1-A3 and B10-B12.

on hospital services was directed to private hospitals. This is significantly more than the average state or territory government. On average, state and territory governments across Australia spent only 1.9 per cent of their hospital budget on private hospitals to provide for public patients in 2005-06.

Unfortunately, publicly available data does not allow for a full comparison of the cost efficiency, quality and safety of WA public hospitals compared to the privately run facilities operating in WA which are used to provide treatment for public patients. However, based on information that is available in relation to the performance of the Joondalup and Peel Health Campuses, these privately managed operations appear to be responsible for substantially reducing the cost of hospital services to the WA Government.

For the services that they do provide, they would appear to perform on a comparable basis to WA public hospitals with the exception of costs. As stated earlier, although the available figures are not directly comparable, both the Joondalup and Peel Health Services would appear to be significantly more cost effective for the treatments they provide to public patients than alternate public hospitals.²⁷

The Reid Report²⁸ noted that 80 per cent of admissions to tertiary hospitals in WA were for episodes of care which required only a secondary hospital service. The implication of this finding is that both service quality and cost efficiency can be improved by moving the treatment of a portion of the 80 per cent of admissions identified to secondary hospitals.

In response to this finding, the Reid Report recommended that four secondary hospitals be expanded to ap-

proximately 300 bed general hospitals to improve access in areas of population growth and reduce the demand placed on tertiary hospitals. Given what is known about the current use and performance of private management and provision of public hospital services, further use of private providers to supply secondary hospital services to public patients should be considered, if not prioritised, as part of any plan to extend public hospital services in WA.

In the past there have been perceived concerns over the quality and safety of treatment provided by private hospitals to public patients. Independent reports have found no significant issues of concern in relation to these services.²⁹

The available evidence reveals that the WA Government is an established leader in the use of private hospitals. Given this leadership and apparent benefits, any expansion of the public hospital system should closely examine the further use of private providers, whether as part of Public Private Partnerships for hospital construction and expansion, as hospital managers, or merely as service providers for the treatment of public patients where appropriate. The experience of WA commends the further use of private hospital provision to achieve cost and quality objectives.

It is an open question as to whether the current political debate over the provision of public hospital services in WA fully recognises the leadership of the WA Government in this area and the success achieved to date. It would appear to be an area where the political leadership in WA can demonstrate even greater leadership in health service provision in WA.

Part eight

Initiatives for reform—Informing the patient

Over the last few years significant progress has been made on reporting many indicators of performance in WA public hospitals. The WA Health Performance Report, published quarterly, provides detailed information on hospital admissions, bed availability, elective surgery waiting times and treatment times in emergency departments, along with other important measures of performance and quality of service.³⁰

The annual reports of the WA Health Department, the Metropolitan Health Service, and the WA Country Health Service also contain detailed and extensive performance information for their respective areas. Recently, the WA Government initiated the 'Blitz Program', which provides additional sessions of elective surgery in WA public hospitals. This program has been made possible by an additional \$15.4 million provided by the Australian Government for this purpose.

The 'Elective Surgery Blitz Report', prepared as a result of this initiative, provides detailed information on the number of patients on waiting lists by surgical specialty, and the number of patients waiting longer than the recommended time for their clinical urgency classification. This information is provided at a hospital level for public hospitals in the metropolitan area (including Peel and Joondalup Health Campuses) and at a regional level in country areas. This information is to be updated on a quarterly basis.

This initiative is a welcome addition to the transparency and accountability of hospital performance in WA. Table 1 summarises all of the performance information available online in relation to public hospitals in each state and territory.³¹

According to Table 1, no individual state or territory provides online reporting for more than half of the parameters listed. WA provides data on 75 per cent of the parameters reported by any state and territory for both 'Admissions' and 'Emergency Department Care' classifications. This matches or exceeds the data available to describe these areas for every other state and territory. In terms of elective surgery measures, it is also comparable or better than other states and territories. Only NSW and the ACT provide more comprehensive online reporting in relation to elective surgery than WA.

Of particular concern is the lack of online reporting in WA of measures relating to Safety and Quality of Care. Of the five measures in this area, WA had none available online. WA is not alone in this omission of reporting, however this is obviously an important area of hospital performance.

Although data may be recorded and reported at a hospital level it may still be shown as not being available in Table 1. Although Table 1 only shows data that is available online, it is not an irrelevant consideration if the goal is to achieve high levels of public accountability and transparency. Making data available online is not essential to transparency and accountability. However it does have obvious advantages to enable wide accessibility and set high expectations concerning the regular and timely release of data that is up-to-date.

It should be acknowledged that over the past few years

WA has made progress in providing more detailed information. However, large gaps remain in the availability of data at a hospital level for public hospitals across WA.

The ACT provides an example of what is possible. ACT residents are able to ascertain online in a matter of seconds the number of sessions of a particular speciality being conducted by individual surgeons at individual public hospitals. At the same time they can find out the waiting time statistics currently applying to that surgeon at that public hospital.³² Although the ACT is relatively a much smaller public hospital system, information of the same nature is available in the UK for National Health Service facilities. Modern technology should mean that such information can be made available to WA residents.

Anecdotal evidence suggests that public hospital patients in WA can obtain access to such information by drawing on privileged relationships or knowledge. While WA Health makes the commitment to WA public hospital patients that they will refer patients 'to the specialty that has the shortest waiting time for elective surgery'³³ at a nearby public hospital individual patients are arguably poorly placed to ascertain the extent to which WA Health is fulfilling this commitment.

Public patients should reasonably expect to have access to measures of safety and quality such as infection rates, specifically at an individual hospital level. Such information was recently the subject of discussion at the Australian Health Ministers' Conference held on 22 July 2008. Reports suggested that the Ministers would make infection rates at a hospital level available. However the communiqué issued after the conference made a far more anodyne statement in relation to such transparency:

'Ministers agreed on the importance of working cooperatively towards a strong national system of health service accountability [the Australian Institute of Health and Welfare performance indicators]. Ministers agreed that this work was crucial to inform the new Australian Health Care Agreement.' — Australian Health Ministers' Conference, Canberra, 22 July 2008

At a hospital level, this information is currently not available even in the Health Service Annual reports. In contrast to the lack of quality and safety measures being reported at the individual hospital level, the Annual Reports of private hospitals in WA that treat public patients report some of these measures.

In the absence of clear public detriment from the regular publication of comprehensive performance measures at the individual hospital level, particularly on quality and safety, WA Health should continue to work towards allowing public patients to be fully informed of quality outcomes and other relevant performance measures. This is another area in which WA should be well placed to demonstrate leadership in the health sector.

Table 1: State and Territory Public Hospital Performance Reporting Online

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Admissions								
no. of admissions	Y	Y	Y	Y	Y	Y	Y	Y
no. of renal dialysis admissions	N	N	N	Y	N	N	N	N
mental health admissions	N	N	N	Y	N	N	Y	N
no. of mental health admissions	N	N	N	N	N	N	Y	N
Elective Surgery								
elective surgery phone line	Y	Y	Y	Y	N	N	Y	N
search for doctors' waiting times	Y	N	N	N	N	N	Y	N
search for procedure waiting time	Y	Y	N	N	N	N	Y	N
waiting times by procedure (NT, by category)	Y	Y	Y	Y	Y	N	Y	Y
waiting times by hospital	Y	Y	Y	Y	Y	N	N	N
no. of patients waiting for surgery	Y	Y	Y	Y	Y	Y	Y	Y
no. of patients waiting for surgical specialty	N	N	N	N	Y	N	N	N
no. of patients waiting longer than 12 months	Y	N	N	Y	N	N	N	N
average (median) waiting time	Y	N	Y	Y	Y	Y	Y	N
no. of patients treated	N	Y	Y	Y	Y	Y	Y	Y
no. of hospital initiated postponements	N	N	N	N	N	N	Y	N
Emergency Department Care								
hospital admissions from emergency department	Y	Y	Y	Y	Y	N	N	N
emergency department presentations	Y	Y	Y	Y	Y	Y	Y	Y
no. of patients seen within recommended time by triage category	Y	Y	Y	Y	N	Y	Y	Y
no. of patients requiring hospitalisation not admitted within 8 hours	N	N	N	N	N	N	Y	N
Other Hospital Level Information								
private hospital activity	Y	N	N	N	N	N	N	N
total bed days	Y	N	Y	Y	Y	N	Y	Y
average length of stay	Y	N	N	Y	Y	N	Y	Y
daily average of inpatients	Y	N	Y	N	Y	N	N	N
mental health services	Y	N	Y	N	N	N	N	Y
non-admitted care	Y	N	Y	N	N	N	N	N
psychiatric hospitals	Y	N	N	N	N	N	N	N
waiting times for dental services	N	Y	N	N	N	N	N	N
no. of newborns	N	N	Y	Y	N	N	N	N
no. of palliative care services	N	N	Y	N	N	Y	N	N
outpatient services	N	N	Y	N	Y	N	N	Y
no. of patients attending GP after hours clinics	N	N	N	Y	N	N	N	N
ambulance response times	N	N	N	N	N	Y	N	N
Safety and Quality of Care								
patient satisfaction	N	N	N	N	Y	N	N	N
no. of unplanned readmissions within 28 days	N	N	N	N	N	Y	Y	N
no. of mental health readmissions	N	N	N	N	N	Y	Y	N
no. of mental health patients seen within 7 days post discharge from hospital	N	N	N	N	N	N	Y	N
no. of unplanned returns to operating theatre	N	N	N	N	N	N	Y	N
Outpatients								
no. of mental health services	N	N	Y	Y	N	Y	N	N
no. of women screened for breast cancer	N	N	Y	N	N	Y	Y	N
no. of public dental clinic visits (TAS, no. of dental appointments)	N	N	N	Y	N	Y	N	N
no. of ambulatory surgery initiative cases	N	N	N	Y	N	N	N	N
dental clinic waiting times	N	N	N	Y	N	N	N	N
oral health waiting list (ACT, no. of patients waiting for dental services)	N	N	N	N	N	Y	Y	N
no. of allied health services	N	N	N	N	N	N	Y	N

Part nine

Initiatives for reform—Voluntary electronic patient records

The late Dr John Paterson, a former Secretary of the Victorian Department of Human Services, observed more than a decade ago that a single acute event experienced by a patient in Australia might accurately be described as an amalgam of ‘seven providers, seven partial records, six funding programs, one powerless patient and no outcome measures’. The result being that for the patient it appears that ‘no-one is in charge’.

In 2004 the Reid Report noted that ‘Investment is needed to assist people to navigate the health system. This includes technology to facilitate the movement of information throughout the health system, such as electronic health records and unique patient identifiers...’³⁵

Both of these observations highlight the need for patients and all of their medical service providers to have knowledge sufficient to provide the best medical treatment possible. There is evidence that WA Health has made progress on the use of unique patient reference numbers. It has also placed additional emphasis on ensuring that communication between public hospitals and referring GPs or specialists occurs at least in relation to elective surgery.

The availability of a system that allows electronic medical records to be accessed by any relevant health provider, including GP’s, specialists and hospitals, would provide significant value for patients and health practitioners.

In 1996, Paterson, drawing on an intimate knowledge of the multiple interactions in the health system, laid out a four year reform path that delivered electronic patient records along with other significant reforms to healthcare funding.³⁶

The availability of high quality technology, the significant value in terms of the delivery of quality of care and improved co-ordination of treatment commends electronic patient records as a reform that should be further pursued.

The WA Government should examine and facilitate solutions to allow WA patients to voluntarily opt-in to an electronic patient record system with appropriate privacy safeguards that permits access for all healthcare providers. Given that such a system could significantly enhance the quality of healthcare provided to individuals, if obvious obstacles were overcome, it could provide the basis for a transformation in healthcare in WA. This is another area in which WA can demonstrate further leadership in the provision of healthcare.

Part ten

Initiatives for reform—Western Australia as a national leader in health reform

Total health expenditure in WA from all sources in 2005-06 was \$8.8 billion, of which more than \$5.6 billion was obtained from government sources.³⁷ The government component of spending is delivered to patients through a myriad of different and disparate programs numbering in excess of 60.³⁸

Figure 18 is an illustrative depiction of the relative sizes from different sources (not identified in the figure) of health expenditure in different areas in WA only. Each bubble represents a single source of funding for one area of health expenditure. The size of each bubble is proportional to the spending from that source in that area. The figure illustrates the complexity of funding sources for different areas of health expenditure in WA, despite the source data aggregating a number of different health programs.

By far the largest single area expenditures by source are federal and state spending on the public hospital system, federal funding for medical services (under Medicare), medications subsidised by the federal government under the Pharmaceutical Benefits Scheme (PBS) and expenditure by individuals on medications. Expenditure by individuals on dental services and aids and appliances are also significant along with community health expenditure by state and local governments. Expenditure on private hospitals divided between health insurers, the federal government (through the private health insurance rebate) and the WA Government are also shown as sizeable bubbles.

Figure 19 is prepared on the same basis as Figure 18 for total Australian health expenditure.³⁹ The main difference, other than some apparent changes in the relative spending by area, is the diminished significance of expenditure on private hospitals by state governments.

Both Figures 18 and 19 include government expenditures made through programs with the aim of improving health outcomes that are variously capped and uncapped. For example Medicare and the PBS are uncapped programs. For these programs there is no meaningful upper limit on the number of services and listed medications for which the Australian Government will subsidise treatment on an individual level. In contrast, government expenditure on public hospitals is capped. The effect of this approach is to create scarcity of supply and generate the elective surgery waiting lists observed around Australia.

The structure of the current health funding arrangements also undoubtedly involves significant inefficiencies. It creates waiting lists in the supply of some areas of healthcare that are likely to contribute to increased costs in

government funded programs that are uncapped. The complexity of the system and its general focus on sources of, and conditionality of, funding create significant obstacles for the healthcare system to provide patients with the best levels of care possible.

One possible radical solution suggested by others⁴⁰ to address these inefficiencies would be for the WA Government to attempt to pool all or part of the current sources of health care funding. By bringing together the \$3.4 billion of recurrent health expenditure from the Australian Government, the \$2 billion from the WA Government, and some significant portion of the \$2.6 billion from non-government sources a patient-centred system could be created.

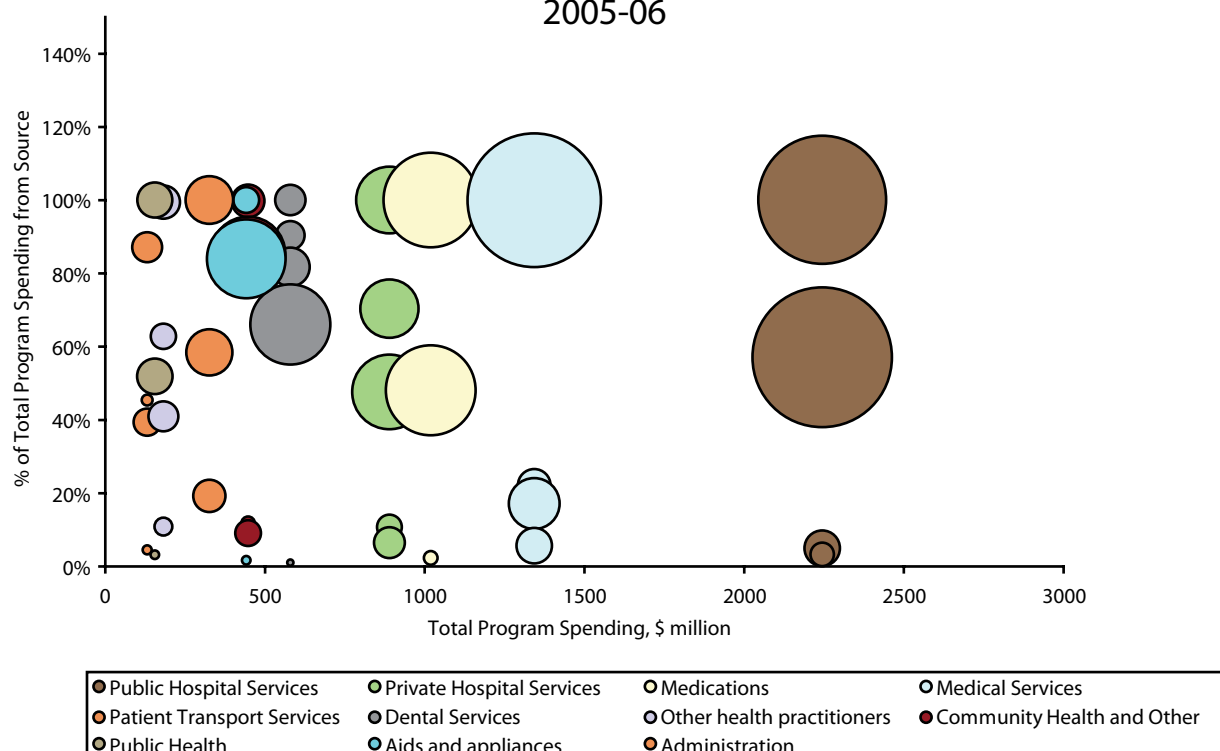
The guiding principle would be that the funding pool would allow for the healthcare which most effectively addresses the needs of individual patients. This model could pool all the available funding around an individual patient and provide for their needs irrespective of where, or by whom, the service was to be provided. Such a model could be trialled in some portion of Perth, possibly on a voluntary basis, in an attempt to remove some of the inefficiencies and distortions in the current system.

Such a model, where funding is pooled to cater for individual needs, could provide powerful incentives in relation to preventative healthcare. This might, in part, overcome the problem that currently exists whereby patients may not be entitled to receive funding assistance for health measures which will avoid long-term costs of far greater significance simply as a result of the design of government programs.

The model might beneficially incorporate some form of patient advocate or agent to empower individual patients to be fully informed about their choices and trade-offs and to better navigate the available health services. While the funding pool design and service provision would be radical in comparison to the current system, WA, with its unique outlook in the Australian federation, could possibly instigate a trial as part of the next Australian Health Care Agreement.

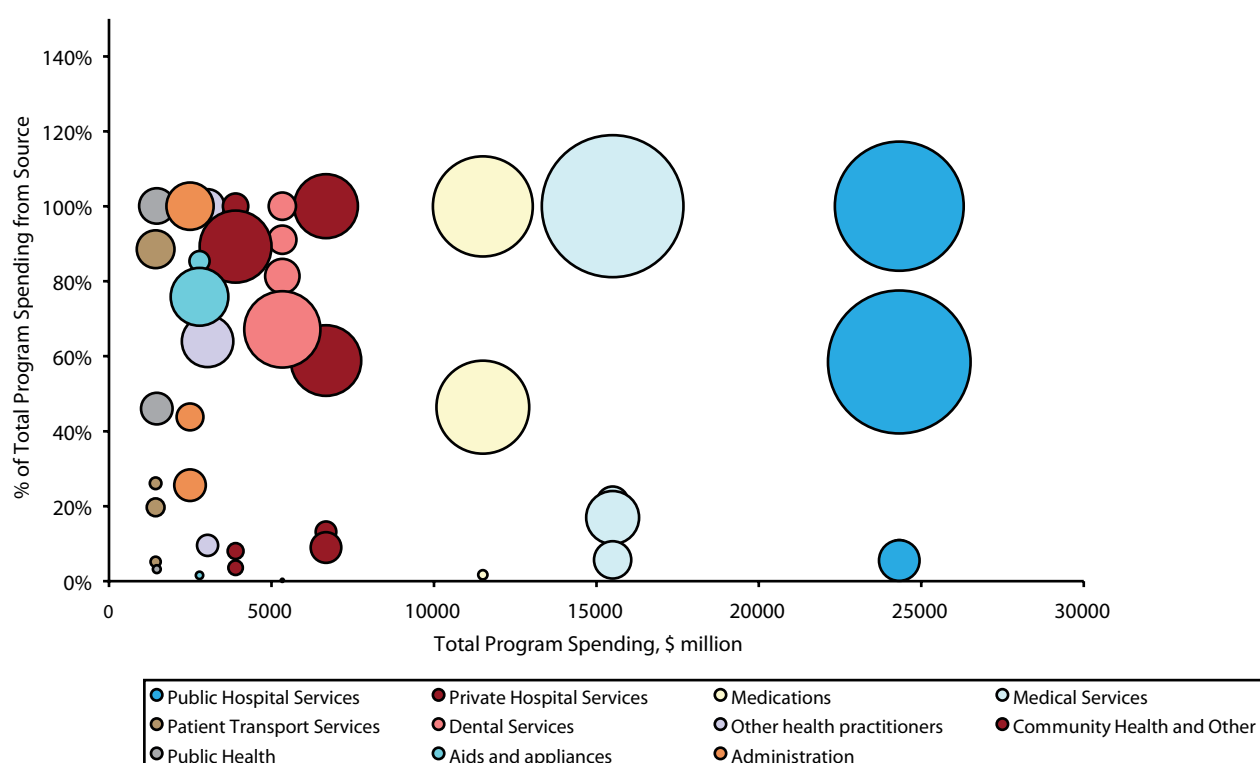
The design of such a model requires more explanation and discussion than is possible here. However, such an approach would radically alter the balance in healthcare towards patient-centred provision and build on the leadership that WA has shown in the innovative provision of public hospital services in Australia. Committing to such a trial, with the aim of removing inefficiencies, improving patient outcomes and minimising waiting lists, would constitute a bold act of leadership on behalf of the WA Government.

Figure 18: Illustrative Health Expenditure in WA by Funding Source and Area, 2005-06



Source: Health Expenditure Australia, 2005-06.

Figure 19: Illustrative Total Australian Health Expenditure by Funding Source and Area, 2005-06



Source: Health Expenditure Australia, 2005-06.

Conclusion

WA public hospitals face challenges unique to WA as the most sparsely populated state in Australia. On measures of hospital efficiency WA public hospitals appear to perform slightly better than average, though they are a significant way behind the most efficient.

On measures of cost efficiency in large, medium and small acute hospitals, WA public hospitals are more expensive than average and this is reflected in the amount spent per person on public hospital services in WA being slightly more per person than the Australian average.

Labour costs per case mix adjusted separation in WA public hospitals were about 4 per cent above the Australian average in 2005-06. This may be due to labour market pressures in WA compared to the rest of Australia. It may also be the result of the workforce profile in WA public hospitals. The available data shows that WA public hospitals have proportionally fewer nurses and diagnostic professionals and a greater proportion of administrative and clerical roles than the Australian average.

Only 41 per cent of the WA public hospital workforce are nurses. This compares with an average of 44 per cent across Australia. WA also appears to have fewer diagnostic and other health professionals with only 12 per cent of the WA public hospital workforce in this role compared to 15 per cent on average across Australia and 20 per cent in Victorian public hospitals.

WA leads Australia in the use of private hospitals to treat public patients. The WA Government spends 15 per cent of its budget for hospital services on private hospitals and appears to get very good value for money.

The people of WA receive greater transparency in cost and quality performance at the level of individual hospitals as a result of WA Government policy.

This report outlines four reform initiatives that the WA Government could pursue to improve health outcomes for every Western Australian and lead Australia in health care reform. These are:

1. Continue WA's leadership in the use of private hospitals for the treatment of public patients by examining the role for private hospital managers and facilities in new hospital construction, hospital expansion and treatment of public patients in private facilities.
2. Increase transparency and accountability by making all performance information, down to an individual hospital level, available online. This should specifically include measures of quality and safety such as infection rates and unplanned readmission rates, as well as waiting times for elective surgery by speciality and by surgeon at individual hospitals. Some of this

information is already available online for other public hospital systems in Australia.

3. Empower patients and ensure higher standards of care by facilitating a system, possibly voluntary for patients, to create electronic patient records that can be accessed by all healthcare providers and patients in WA. This should aim to ensure that all relevant information is available to all healthcare providers that a patient might choose whenever it is required.
4. Examine a model to pool government and private health funding to enhance health outcomes, minimise waiting times and improve cost effectiveness of the system. This might occur as part of the current negotiation of the Australian Health Care Agreement between the Australian and WA Governments. The intent of this model, which may also be voluntary for patients and only apply to some portion of the Western Australia's population as a trial, would be to eliminate inefficiencies between government health programs that currently exist, better inform patients of their options, provide for a greater emphasis on preventative health care, minimise or eliminate waiting times and deliver better health outcomes overall for patients.

Through leadership by the WA Government, which embraces innovative service delivery and infrastructure provision, transparency of information and patient-centred health, all Western Australians will benefit.

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5. Health Expenditure Australia, 2005-06, Australian Institute of Health and Welfare, Table 39 & 40.
6. Health Expenditure Australia, 2005-06, Australian Institute of Health and Welfare, Table B10–B12.
7. ABS (unpublished) Australian Demographic Statistics, December Quarter 2006.
8. The State of Our Public Hospitals June 2008 Report, Department of Health and Ageing, Australian Government, p 8.
9. Report on Government Services 2008, Productivity Commission.
10. Victoria is used as a relevant benchmark because based on a range of available efficiency and cost measures it repeatedly comes up as a high-performing public hospital system.
11. Queensland is chosen as a plausible target in this case because it has the third lowest population density after South Australia and Western Australia and has only 18.6 per cent of its beds in hospitals with fewer than 50 beds.
12. WA Health Performance Report, January to March 2008 Quarter, p 11. Western Australian Department of Health.
13. Report on Government Services 2008, Productivity Commission.
14. The State of Our Public Hospitals, June 2008 Report, Department of Health and Ageing, Australian Government.
15. WA Health Performance Report, January to March 2008 Quarter, p 11 & 12.
16. At the time of writing the technical reference manual for the data shown in Figure 3 had not been released and hence this could not be confirmed absolutely.
17. The State of Our Public Hospitals, June 2008 report, Department of Health and Ageing, Australian Government, p 31.
18. The State of Our Public Hospitals, June 2008 report, Department of Health and Ageing, Australian Government, p 27.
19. The State of Our Public Hospitals, June 2008 report, Department of Health and Ageing, Australian Government, p 27.
20. Victoria is chosen arbitrarily as a benchmark for an efficient public hospital system based on the reported data.
21. Report on Government Services 2008, Productivity Commission, Public Hospitals 10.20.
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39. Neither Figure 18 nor 19 include expenditure on aged care facilities.
40. See Paterson, J. 1996