31 August 2012

Mr Sean Coley
Executive Officer
Economic Development and Infrastructure Committee
Parliament of Victoria
Parliament House
Spring Street
MELBOURNE VIC 3000

Dear Mr Coley

INQUIRY INTO LOCAL ECONOMIC DEVELOPMENT INITIATIVES IN VICTORIA

Thank you for inviting the Victorian Competition and Efficiency Commission to make a submission addressing the terms of reference of the Committee’s inquiry into economic development initiatives in Victoria. I am pleased to provide this response to draw your attention to a number of reports written by the Commission which are relevant to the terms of reference.

The Commission was established under the State Owned Enterprises (State Body – Victorian Competition and Efficiency Commission) Order 2004. Its functions include: undertaking inquiries into matters referred to it by the Victorian Government, reviewing and advising on the impact of significant new legislation and the adequacy of measurements of changes in the regulatory burden, and operating Victoria’s competitive neutrality unit.

In several inquiries the Commission has examined issues which relate to economic development in Victoria and are likely to be of interest to the Committee. Many of these inquiries contain significant regional and local government dimensions. I attach electronic links to the relevant inquiry reports at the foot of this letter, including the relevant draft report where the Government has not yet released the final report.


The Commission was asked to identify the key reform areas that the State Government should target to improve productivity, labour force participation and Victoria’s overall economic competitiveness, focusing predominantly on priorities for state-based action. In doing this work, the Commission was asked to benchmark Victoria’s competitive performance and investigate the most advantageous package of policy reforms. The Final Report has been submitted to the Victorian Government and has not yet been released. The following observations relate to the Draft Report, which was released in November 2011.
The Commission identified and quantified the substantial decline in labour and multifactor productivity growth in the Australian and Victorian economies since the late 1990s. This trend would have adverse consequences for living standards and opportunities in Victoria if it continued, and is clearly a priority issue for public policy. The benchmarking of the Victorian economy showed the State to be competitive compared with other Australian jurisdictions, but in many areas was significantly behind world’s best practice.

The Draft Report outlined a package of reforms to lift productivity, competitiveness and labour participation in Victoria. The main focus of the Draft Report was on action to be taken by the Victorian Government, with only limited reference to action to be taken by local government (please refer to the Commission’s recommendations in its inquiry into streamlining local government regulation below).

The Commission identified five areas of a State-based reform agenda, and gave highest priority to three areas in particular:

- **Education and training:** education and training offer the greatest potential to improve human capital and therefore workforce participation and productivity. The Draft Report outlined proposed reforms in vocational education, public school education and early childhood development.
- **State taxation:** several studies have highlighted that distortionary and inefficient State transaction taxes reduce productivity and economic development. The Draft Report outlined the need for a process to bring about removal or reform of inefficient state taxes.
- **Land use and infrastructure:** the Draft Report identified potential benefits from better integrating strategic planning for land use, transport and infrastructure development and reform the land-use planning system to introduce more flexibility and efficiency. The importance of the planning system was a recurring theme through many of the Commission’s previous inquiries. The Draft Report also contained draft recommendations for embedding Regional Victoria more strongly in the high-productivity, high-participation parts of the Victorian economy.

The common characteristics of these three areas are that changes in them will have a large impact on productivity, competitiveness and participation; the State Government has a high capacity to influence these areas; the relevant solutions are relatively well understood; and there are clear pathways to achieving reform.

The other two areas discussed in the Draft Report were State regulation and innovation. The Draft Report identified opportunities to reduce unnecessary regulatory burdens particularly in major public and private project approval processes, reforming the Environmental Effects Statement process (having regard to recommendations on this matter in a previous Commission inquiry) and applying a risk-based approach to regulation. Stimulating innovation, especially private sector innovation, is very difficult for governments to influence. The Commission made a number of limited draft recommendations in this area. Other related recommendations were made in the Commission’s Final Report into Victorian Manufacturing: Meeting the Challenges.

The Commission developed these views further following consultation on the Draft Report. The Final report was submitted to the Victorian Government in January 2012.
2. **Strengthening Foundations for the Next Decade: An Inquiry into Victoria’s regulatory framework, 2011.**

The Regulatory Framework Report identified regulation as a key policy tool to achieve the Government’s social, environmental and economic objectives in a way that also supports productivity growth, competitiveness and improved liveability.

The Commission focused on Victoria’s regulatory management system – the collection of Victorian processes, frameworks and organisations for designing, implementing, administering and enforcing, and evaluating and reviewing regulation following its implementation.

The Commission made recommendations to increase the strategic and ongoing contribution of Victoria’s regulatory management system by:

- building whole of Victorian Government attention to improving the performance of regulators
- strengthening the impact assessment process to improve the design of regulation, better consult with affected parties and increase transparency
- addressing some gaps in current arrangements, including improving the administration, enforcement and evaluation of regulation
- reducing the regulatory burden on business and other sectors.

The Commission also recommended reforming current COAG processes for national law reform while recognising the scope for State initiatives to trial innovative reforms.


The Commission was asked to examine the impacts on business of regulations administered by local government, the scope for streamlining local government practices, and inconsistencies between councils in local government regulation. The Commission was also asked to identify regulatory impediments to small and medium enterprises’ access to procurement and the costs incurred by local government in administering regulation.

The Commission’s final report noted that under the *Constitution Act 1975* (Vic) local government is a ‘distinct and essential level of government’ (s 74A) which complements Federal and State governments. Within this broad framework, Victoria’s 79 councils rank among the most important regulators in the State, administering 29 State Acts (including planning regulations, building, food and some transport laws), and creating and administering local laws.

The delivery of these regulatory functions has a significant impact on Victoria’s attractiveness as a place to live and to do business. The Commission concluded that Victoria needs a better relationship between the State and councils, to manage more effectively the challenges of a growing economy and population.

The Commission found that Victoria’s businesses consider that, overall, councils are doing a satisfactory job, particularly in areas such as food safety.

That said, the two main areas that most dissatisfy business are land-use planning and building. Research on land-use planning regulation in Victoria highlighted the uncertain, complex, costly and slow nature of relevant processes. The Commission focused on land use
planning as a key area for further improvements, and identified several reforms, including that the State Government clarify its objectives for land-use and development, simplify the regulations and provide councils with better planning tools and financial support. Councils also need to make changes, including to accept the State's planning objectives, adopt best practice processes for decision making to fast track simple applications, and to improve financial resources and skills.

There is also an ongoing need for the State to take account of the need for councils to receive guidance on best practice and consistent administration of State laws and adequate revenue to finance their activities. In doing so, the significantly different capability of councils needed to be taken into account.

The Commission estimated that its recommendations on land-use planning, building site regulations and procurement have the potential to deliver annual savings to business of between $42 million and $95 million, without undermining the benefits of regulation.


Another perspective on planning control problems was given in the Commission's report on its Inquiry into Victoria's Tourism Industry. The Commission found:

- the ability of regional tourism businesses to respond to opportunities is being constrained by the way private and public lands are managed and regulated
- planning controls on private land limit tourism investment in rural areas and in the green wedge zones bordering Melbourne
- features of the regulation and management of public land, especially national parks, further impede private investment in tourism
- there are opportunities to improve the environment for tourism investment through changes to aviation policy, the taxi industry and building regulations among other regulations.

Accordingly, the Commission made recommendations for changes to land-use planning regulation, the regulation of public land, aviation policy and various regulations affecting the tourism industry.

5. Regulation and Regional Victoria Report, 2005

The Commission's first report, Regulation and Regional Victoria, aimed to identify key regulatory barriers that significantly constrain Victoria's regional economic development and employment. It also addressed ways to improve the design of Victorian laws and regulations with a view to achieving greater economic development, while protecting other community and environmental objectives.

The Commission examined specific regulatory issues in which councils have significant roles, namely land use planning, the environment and food safety, and made recommendations for reform. The recommendations included that the Victorian State Planning Policy Framework be subjected to a public review every ten years, and more frequently when warranted, and that councils be assisted to facilitate larger and complex regional projects and major local planning amendments.

In addition, the Regulation and Regional Victoria report highlighted recurring problems that span specific laws. The recurring problems highlight the need for improved consultation on proposed new or modified legislation, more systematic identification of key cross border
regulatory inconsistencies, enhancing coordination across government agencies, tightening the linkage between policy intent and regulation, and articulating a whole of government approach to cost recovery, supported by implementation guidelines.

6. **Victorian Manufacturing: Meeting the Challenges, 2011**

In the Victorian Manufacturing Report, the Commission noted that manufacturing’s share of the economy has fallen and its composition is changing. Moreover, there are ongoing threats from the high exchange rate, climate change and other factors. The Commission proposed that the objective of an invigorated manufacturing policy should be to improve the wellbeing of Victorians by having more high performing manufacturing enterprises operating in a dynamic and internationally competitive Victoria.

The Commission identified three strong themes which emerged from its review of recent Government policies:

- policy should focus on the challenges facing individual businesses and move away from targeting specific industries
- innovation is crucial to the productivity and competitiveness of manufacturing
- the depth and strength of the networks within which businesses are embedded is critical to their awareness of the need to innovate and improve productivity.

The Commission also identified ways to increase the number of high performing enterprises and made specific recommendations to the Victorian Government in the areas of innovation and enhancing business networks, skill formation, investment facilitation, regulation and taxation, and government procurement with a focus on value for money.

I trust this brief summary of views expressed in several Commission reports is of some use to the work of the Committee.

Yours sincerely

Dr Matthew Butlin
Chair
Victorian Competition and Efficiency Commission

c. Mr Michael Brennan, Chief of Staff, Treasurer’s Office
Ms Narelle Hardiman, Assistant Director, Markets, Regulation & Resources
1. **Securing Victoria’s Future Prosperity: A Reform Agenda. Inquiry into a State-based Reform Agenda, Draft Report, November 2011**


2. **Strengthening Foundations for the Next Decade: An Inquiry into Victoria’s regulatory framework, 2011.**


5. **Regulation and Regional Victoria Report, 2005**


6. **Victorian Manufacturing: Meeting the Challenges, 2011**