

ACT Government submission into the Productivity Commission's Productivity Review

Developing and maintaining productive, sustainable economies are core interests of any government. This applies in the general sense as it relates to improving citizens' quality of life as well as more directly through governments' role as service providers for current and future generations.

The ACT Government has been alert to the need to continually strive for improvements in productivity. We have not waited for a crisis to signal the need for government to act and have proactively driven regulatory and tax reforms that are arguably the most progressive in Australia.

Furthermore, the ACT has a long history of placing innovation at the centre of our strategies to develop the ACT's economy, recognising the fundamental role that it plays in improving growth and productivity. As a result, despite its comparatively small size, Canberra is coming to be recognised as a leading city for its innovative business community and nation-leading collaborations between higher education/research and development institutions and the private sector.

Our submission provides a number of short case studies on key productivity-enhancing reforms that have occurred in the ACT in recent years, as well as suggestions regarding emerging opportunities and challenges that the Commission may wish to consider when formulating its recommendations during this inquiry.

Innovation and the sharing economy

The collaborative economy is described as both an innovative and disruptive force within the economy. It relies on information technology (e.g. smart phone and applications) to facilitate peer-to-peer transactions typically via an intermediary service.

The ACT was the first jurisdiction in Australia to legalise and regulate ridesharing services. It was also the first capital city in the world to regulate for ridesharing before the service has begun.

Case study 1 - Ride sharing regulation

Key themes of the ACT's experience included a drive to innovate and reform, and a willingness to look at disruption as a catalyst for change, and the clarity of intent and responsibility as key marks of the ACT's Taxi Industry Innovation Reform process. Fundamentally, the success of Ride sharing regulation in the ACT reinforced the importance of applying well established policy making principles.

1. Support innovation

In announcing a review of regulation of taxi and on-demand transport services in January 2015, the Government clearly signalled a willingness to support innovation subject to appropriate management of risks.

Ministers were unambiguous in their statements to focus on consumer outcomes through: consideration of the potential to increase competition and provide more differentiated transport services to the public; the safety of passengers and community; the accessibility of services; and efficient and sustainable supply to the marketplace.

With an expectation that innovation in transport will continue apace, the ACT's new regulatory framework was designed to accommodate change. It seeks to respond to defined behaviours around safety, consumer protection and payment, rather than regulate individual business models. This promotes a fair treatment of different business models, and makes the new framework more flexible and "future proof".

2. Focus on outcome, not method

The underlying service of new ridesharing providers and traditional taxi operators is the same: transporting passengers on-demand. Although the risks are largely the same, new business models adopt new approaches to these managing these risks particularly through the use of information about the users and providers of a service.

The ACT took into account the different approaches to risk from different business models as part of designing a new regulatory framework that would be adaptable to new technologies.

3. Governance

These reforms cut across a wide range of agencies and Ministerial responsibilities. To minimise the impact of these dispersed responsibilities a central agency team was provided with clear accountability and responsibility to progress reforms in a clearly defined timeframe. This supported strong and focused cross-agency collaboration and the bringing together of policy and regulatory areas to identify practical pathways to the desired outcomes.

Clear Ministerial statements on objectives for the review and reforms have supported stakeholder involvement and internal government cooperation. Stakeholders and the community have been engaged throughout the process through a variety of means, including initial targeted consultation, a discussion paper and submissions, working groups, surveys and social media.

A breadth of industry input and internal collaboration allowed a small and dedicated policy team to synthesise input into the evidence-base required to assess reform options. Where gaps were determined outside expertise was procured – for example, in economic modelling and peer-review.

4. Engage

The ACT Government undertook a comprehensive stakeholder engagement process throughout the

Taxi Industry Innovation Review and Reforms. This elicited valuable insights and recommendations, and also assisted stakeholders to be appropriately informed and prepared in a timely way for the launch of reforms.

The engagement process occurred in several stages. Key industry stakeholders were approached early to raise important issues for placement in the Review's 2015 Discussion Paper. Once the Discussion Paper was issued, the opinions and experiences of additional industry stakeholders and the broader community were then sought, through surveys, submissions, town halls and individual meetings. Stakeholder input generated valuable background and insights, which were important in shaping an Analysis Paper and proposed reforms.

To make sure reforms were appropriately implemented through the phased reform process, the Government formed an Implementation Working Group (IWG) comprised of stakeholders representative of industry and the community, which were regularly engaged for advice, and to whom regular updates of the reforms' progress were provided. Correspondence and meetings with individual stakeholders also continued as needed. As well, key stakeholders under the IWG were involved in commenting on draft legislation to help its finalisation.

This stakeholder-engagement program supported the quality of the reforms, and helped industry and the community prepare for, and welcome, a changing transport environment.

5. Review existing settings

The ACT reviewed existing regulations for traditional taxi and hire car operators when designing the new regulatory framework. The so called 'disruptive technology' and opportunity for new entrants provided a catalyst for change of existing regulatory settings.

Competition and regulatory settings in the taxi industry had long been a matter of argument, even prior to the development of National Competition Policy in 1995. As a result the ACT chose to lower barriers such as taxi license fees and remove regulations such as those related to driver and vehicle presentation. These changes will allow traditional models to compete on a level playing field with new services and emerging business models.

6. Don't wait

Awaiting changes in legislation as the means to permit innovation removes the Government's ability to be dynamic and act to provide a ready response. Objectives can be attained and risks addressed by alternate means.

The ACT's first stage approach was based on conditional exemptions and service agreements allowing services to commence while legislation was being developed. The major elements of risk were mitigated with requirements for checks of people and vehicles, and appropriate insurance coverage. Where there was the opportunity to provide immediate change for existing industry participants it was taken (for example, reductions in fees and charges).

7. Monitor and evaluate

The ACT committed to formally monitoring the outcomes of the new regulatory framework for the two years from October 2015. Reform is fluid, data can be limited and not all responses and results can be foreseen. An evaluation, to be undertaken in 2017, will consider changes in market supply and demand and to the quality of services delivered to consumers. This evaluation will be used to determine the need for further adjustment to the regulatory framework.

The sharing economy approach has involved a move from a traditional firm-consumer and firm-employee relationships to a service facilitator-independent contractor-consumer (SFICC) relationship. While not so different from some existing approaches (for example, the taxi network/taxi operator/bailee driver relationship) the prevalence of SFICC and the associated increase in micro contracted businesses raises a number of questions with implications for productivity. This includes:

- Whether new employment facilitated by the sharing economy is additive or substituting for existing capacity in the economy?
- Is the transfer and management of risk from businesses to individual contractors efficient?
- Similarly, are there diseconomies of scale in multiple individual contractors undertaking administrative tasks previously performed within a single firm (for example, GST/BAS performed by individual rideshare drivers despite all payments going through the Transport Booking Service)?
- Will there be a diminution in individuals' legal recourse when dealing with often complex and multi-national service facilitators and, by extension, implications for productivity? For example:
 - workloads in civil/administrative courts;
 - potential for increased insolvencies if individual contractors are less resilient than larger firms; and
 - resolving ambiguity between criminal and civil proceedings in dealing with the use of assets - e.g. if a person does not return a shared car it may not automatically constitute theft.

The government's experience addressing these issues has raised a number of questions regarding the capacity and capability of existing regulatory frameworks and institutions to cope with a wide and growing range of new business models.

Although the adaption of regulation to support a breadth of opportunities and innovation, it is unclear whether there is an optimal level of adaptability in regulations, beyond which the efficiency of the regulation drops and becomes a drag on productivity.

Taxation and non-market sector

Taxation inevitably influences decisions by households and firms and by extension has implications for productivity. And while taxation in some form may be unavoidable, the particular tax policies adopted by governments can be more or less distortionary and more or less supportive of productivity-enhancing investments in both the public and private sectors.

In 2012-13 the ACT Government embarked on an ambitious 20 year program of tax reform, based on recommendations following reviews of the national and territory tax systems.

The ACT's transition to an efficient broad based land tax secures a stable revenue base which will allow the Government to plan for the future with greater certainty for spending on the high quality services and infrastructure valued by the Canberra community. Similar reforms could be implemented in other jurisdictions and governments at all levels should continue to pursue productivity-enhancing taxation reforms.

Case study 2 – Taxation reform

The ACT Taxation Review (the Review) was commissioned following the release of the Australia's Future Tax System (AFTS) report. The Review Panel comprised a former ACT Treasurer, an economics Professor from the National Centre for Social and Economic Modelling at the University of Canberra and a former ACT Under Treasurer.

The Review Panel examined whether ACT taxes are appropriate, equitable and effectively distributed, and provide the stability and certainty required for the Government to continue delivering high quality community services to Canberrans.

The Review observed long term risks to the sustainability of the Territory's revenue base combined with increasing services expenditure as the basis for major taxation reform – the GST base is eroding, the cost of health services is rising faster than the economic growth rate and significant taxation lines, such as duty on conveyances, are volatile, unfair and unsustainable.

Reforms to improve stability, efficiency and fairness

In 2012-13, the ACT Government commenced a tax reform program based on the recommendations from the Review and AFTS report. The main reform initiatives relate to the abolition of inefficient taxes on conveyances and insurance premiums. The revenue lost through the abolition of these inefficient taxes is being replaced through the general rates system.

The ACT is in a unique position to undertake major taxation reform due to:

- its combined local and state level government;
- ready access to a broad based land tax (general rates); and
- relatively high average incomes compared to other jurisdictions, which provide capacity to absorb and cushion the impacts of reform.

In addition, the ACT government has in place a number of measures to assist those on low incomes with their rates. The Pensioner Rates Rebate provides a partial concession on general rates bills for eligible pensioners. The Rates Deferral Scheme allows pensioners (and non-pensioners that meet age, income and land value criteria) to defer payment after the rebate has been deducted until the sale of the property.

From the outset, the Government has been clear that this reform involves a change to the "tax mix" without an overall increase in the "tax take". It has also been very open about the long term nature of the tax reform program. While the 20 year timeframe for the reforms allows for a steady transition to the new tax system, the government has divided the long-term task into five-year stages and reserves the right to adjust settings in the short term if necessary to respond to changing circumstances.

Most Canberrans value high quality services and infrastructure. The transition to an efficient broad based land tax secures a stable revenue base which will allow the Government to plan for the future

with greater certainty for spending on high quality services and infrastructure. These factors have also been important to successful implementation of tax reform in the ACT.

Conveyance Duty

Conveyance Duty is an inefficient tax that distorts consumer behaviour and exercise of housing preferences. It is also inequitable, as the tax burden is carried by a small number of people transacting in the housing market and it only applies to those who purchase real property. In addition, conveyance duty is a highly volatile source of revenue.

The Review recommended that conveyance duty be abolished over a 20 year period to allow households and businesses time to plan with certainty. Since 2012-13, conveyance duty has been cut for all property values. Duty on a \$500,000 property has been cut by 34 per cent. Duty rates out to 2020-21 have been published in the 2016-17 Budget. By 2020-21 (the half way point of the tax reform program), duty on a \$500,000 house will have been cut by 51 per cent.

Insurance Taxes

The Review concluded that insurance taxes are highly inefficient. The duty increases with the level of insurance cover and may create adverse consequences of under insurance. Under insurance caused by insurance taxes can impose a direct cost on governments where there is an expectation of direct assistance should a major catastrophe occur.

The Review recommended that duty on general insurance and life insurance be abolished. Duty on general and life insurance was incrementally reduced each year from 2012-13 until it was fully abolished in 2016-17. The ACT is the only jurisdiction to have abolished insurance duty.

General Rates

There is broad consensus amongst economists and tax policy experts that a broad based land tax is least likely to have a negative impact on the economy compared to other taxes.

The Review concluded that the general rates base is a fair, stable and efficient source of taxation and recommended the general rates system be used to replace other inefficient taxes.

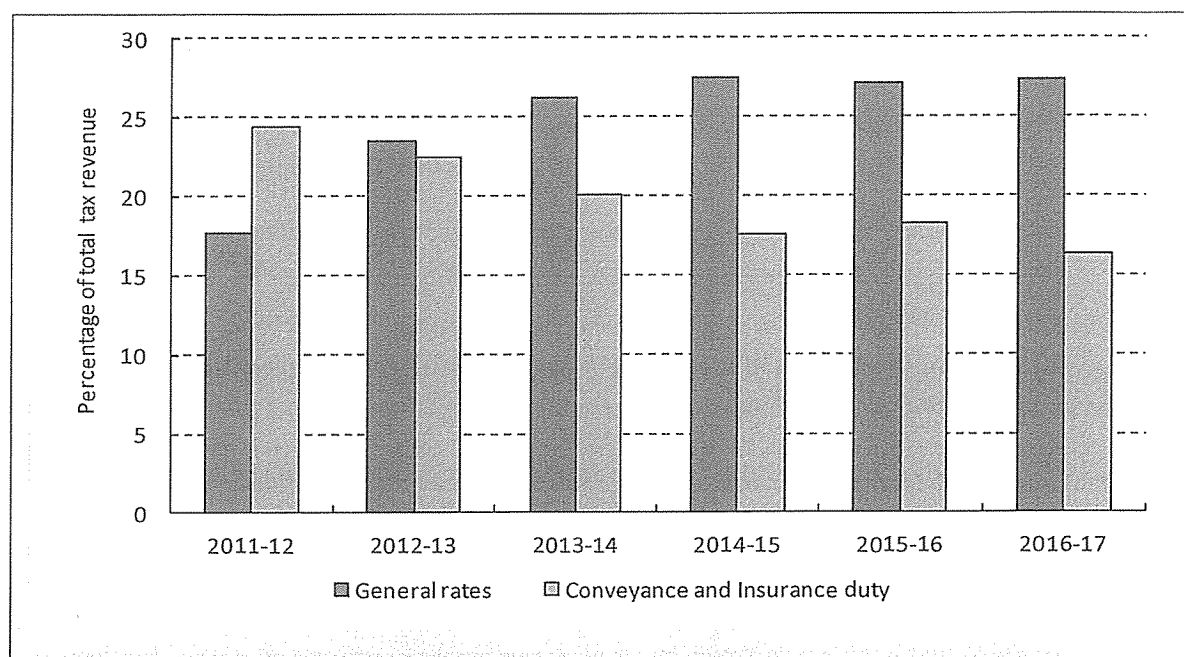
A progressive marginal rates structure has replaced a flat rate to make the general rates system fairer. General rates have been increasing each year since 2012-13 to replace the cuts to conveyance and insurance duty. Average general rates have increased by about \$452 compared to what they would have increased by in the absence of tax reform. However, increases to the progressivity of the rates system has meant that low-value properties has been less impacted by the transition.

Progress of tax reforms

In 2011-12, conveyance and insurance duty revenues together represented 24 per cent of total own source tax revenue – this is forecast to decrease to around 16 per cent in 2016-17. The relative share of inefficient taxes will decline further over the forward estimates period as the transition of tax bases continues.

General rates revenue is now the largest component of own source tax revenue at around 27 per cent of total tax revenues in 2016-17 compared to 18 per cent in 2011-12. The changing trends of relative tax revenue shares are shown in the figure below.

General rates, conveyance and insurance duty revenue as a share of total tax revenue



The Commission has noted the importance of the non-market sector in improving national productivity, as well as the challenges inherent in measuring, and by extension improving, productivity in the non-market sector.

Separately, the Commission has, in its inquiry into the use of public data, identified the enormous potential for better use of data to improve design and delivery of services. This is particularly the case in the health care sector, which is already one of the largest areas of expenditure by governments in addition to being one of the fastest growing areas of spending.

While technological advances have removed many technical barriers to utilising 'big data' to improve or develop services, the re-use of individuals' data by government to improve the quality and efficiency of services is still complicated by various legislative and cultural issues.

Addressing these barriers would potentially unlock major opportunities for improvement in the productivity of government service delivery, as well as supporting better-informed decision making regarding which services should be delivered in the first instance, thereby supporting better allocation of resources.

City governance

The Commission's discussion paper notes the potential for productivity to be hampered by congestion and the increasing amount of time spent travelling to/from or for work. Yet in many cases, the high cost of housing in cities is pushing workers to live farther from their jobs, often lacking access to efficient public transport systems creating leading to more road congestion and lost productivity.

Discussion of issues such as efficient public transport or planning regulations can get lost in larger discussions about productivity; however, contrary to the adage that Australia rides on the sheep's back, research shows the majority of economic output is concentrated in our cities, making their efficient functioning an important aspect of national productivity.

There is no 'silver bullet' for these issues – rather, a complex set of interactions between planning, regulatory and funding issues at all three levels of government. Nonetheless, as Australia's cities continue to grow, both in economic and geographic terms it will become increasingly important to ensure that the frameworks governing these interactions are capable of responding to change and growth.

The ACT Government encourages the Commission to investigate mechanisms, such as 'City Deals' that can reduce duplicative regulation, coordinate planning for cities across multiple levels of government and improve decision making regarding productivity improving infrastructure investment where there may be fiscal imbalances.

Case Study 3 – Access Canberra

Government processes can be complicated and difficult to understand for citizens. For business, where government processes can be especially hard to navigate, business owners often need to engage with disparate government agencies in order to establish a business.

Through the introduction of Access Canberra, the ACT has looked to streamline and expedite licensing and approval processes to ultimately make doing business in the ACT easier, convenient and more attractive. Access Canberra aims to achieve this while ensuring community safety provided by regulations and licensing is preserved.

Access Canberra is the first organisation of its kind in Australia. It provides easy, streamlined access to integrated regulatory services for businesses, community groups and individuals seeking service, support, protection and advice from the ACT Government on a range of matters including:

- Building, utilities, land and lease regulation;
- Electricity, natural gas, water, sewerage and industry technical regulation;
- Environmental protection and water regulation;
- Fair trading and registration, inspection and regulatory services;
- Occupational licensing;
- Public health protection and regulation for food permits;
- Racing and gambling regulation;
- Road safety regulation, and driver and vehicle licensing; and
- Work health and safety.

Access Canberra has so far assisted more than two million people by phone or in person, including more than one million transactions at Service Centres. In addition, more than five million people have visited the Access Canberra website for information and assistance.

The community has embraced the assistance Access Canberra provides through coordinated approvals for events (some events previously engaged with dozens of different teams across government to secure up to 30 separate licences and approvals – there is now one case manager who coordinates all regulatory activities behind the scenes) and providing joint inspections by inspectors.

Risk-Based Regulatory Approach

Access Canberra is building understanding within the community to help people comply with regulations using a risk-based approach, developing efficient ways of operating to ensure community safety, providing a level playing field for business and reducing red tape. This enables resources to be targeted to where they will be most effective in reducing harm to the community, with the focus on outcomes rather than prescriptive regulation.

For example, to achieve greater compliance across a range of industries, Access Canberra has commenced a series of targeted inspections across high risk industries. These are conducted utilising inspection data to identify the areas and the periods where risk and harm is the greatest. In 2015, this included coordinated compliance inspections covering liquor, gaming and health at several high risk events.

Reducing Unnecessary Red Tape

A key focus of the ACT Government and Access Canberra has been identifying and reducing unnecessary red tape. Access Canberra has worked closely with policy agencies to implement a number of red tape reduction initiatives including:

- easing the administrative pressure on new agent licensees with respect to submitting trust account details;
- facilitating the public's access to government by removing requirements from several Acts for complaints to be provided in writing and signed by the complainant; and
- reducing reporting requirements for employers in the Territory by changing wage declarations for workers' compensation insurance purposes from six months to twelve months.

Through initiatives such as these, the ACT Government is continuing to reduce business administration and compliance costs. For example, with the workers' compensation changes alone, there will be 70,000 fewer administrative transactions per annum.

When examining the reduced regulatory impact on business in 2015, Access Canberra found that 96% of the 78,000 businesses and individuals inspected were compliant with the law. These compliance rates are a key indicator of keeping the community safe and providing a level playing field for business.

Joint Inspection Programs

Joint licensing and compliance inspections which include government agencies outside Access Canberra commenced in September 2015. This focus on joint inspections allows

businesses to spend less time dealing with government, and more time getting creating value for their customers.

Access Canberra has undertaken joint inspections of motor vehicle repairers in the ACT to detect unlicensed motor vehicle repairers (Road Transport Authority), minimise issues that may compromise public or employee safety (Worksafe ACT) or expose consumers to financial harm (Fair Trading), as well as examining environmental controls in place (Environmental Protection Authority). Joint inspections of public land in areas of high levels of construction to ensure the safety of the community and construction workers, protection of public assets such as trees and gutters, and safe parking practices by workers were also undertaken.

These inspections have reduced the number of interactions between government and businesses, with great success. The inspections were designed to focus on engagement and education in an effort to minimise the need to take enforcement action.

Customer Experience

Stakeholder service and satisfaction are embedded in Access Canberra's vision and processes, and the organisation continually seeks feedback and opportunities for improvement. One of the core principles of Access Canberra is customer experience that is user-centred, simplified, inclusive, connected, sustainable and supported.

Access Canberra brings together shopfronts, call handling, online services and regulatory functions and is a significant shift in the way services are delivered to the people of Canberra.

The first Access Canberra Service Centre was opened in Gungahlin in May 2015 and has been a great success with customers rating their satisfaction with the service at 97.6%. The centre features touch screen terminals to quickly complete a range of transactions online. It brings together a large number of services that were previously provided at separate locations (e.g. births, deaths and marriages transactions), reducing the number of trips people need to multiple locations to get their business done. In 2016 the model has been extended to a number of other shopfronts throughout the ACT.

Access Canberra offers an online Customer Relationship Management (CRM) system for a range of uses, including the collection, tracking and management of feedback and enquiries. Users, once registered, can track the progress of their enquiry, which can be managed and routed internally by staff, meaning that customers do not have to approach a number of different people to get the right answer.

Access Canberra is progressively moving more services online, so that businesses can transact with government anytime, anywhere, at their convenience. This will include simplifying forms and making them more accessible, and allowing more forms to be completed and submitted online.

As an organisation, Access Canberra has recorded high levels of customer satisfaction. In 2016, 91% of people have reported that it is easy to do business with Access Canberra, which was a 6% jump from 2015. In addition, 87% of customer's have reported they are happy with Access Canberra's customer service, including those subject to our compliance and enforcement activities.