

**Submission to the Productivity Commission**

**Review of National Competition Policy Arrangements**

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# **Submission to Review of National Competition Policy Arrangements**

## **1. Executive Summary**

The review of National Competition Policy (NCP) provides an excellent opportunity for Australian governments to evaluate the progress to date and utilise the lessons learned to ensure any future reform initiatives are designed in a way which maximises the benefits to the community and the economy.

Competition policy reforms have made an important contribution to Australia's recent growth performance which is of benefit to all businesses, including professional services. The NCP reform process has also delivered some positive outcomes in terms of price, improved quality of services and innovation to consumers of individual professional services.

Professions Australia considers there is potential for the NCP process to deliver some further efficiency gains by addressing restrictions relating to some professions which impact on competition and are difficult to justify in terms of public benefit. However capturing these efficiency gains will mean addressing some of the deficiencies in the current approach to the reform process to maximise outcomes for both consumers and the professions. The emphasis on state based rather than national legislative reviews and the narrow focus of the reform process on efficiency may have contributed to the less than optimum outcomes from the legislative review program for the professions.

It is also important that any future reform agenda adopt a focus which reflects the realities of the global market in which many professionals now operate. Many professional services are operating in a global market and the fastest growing markets are those where consumers place a premium on innovation, quality and responsiveness. Further productivity gains will increasingly be dependent on the capacity of the domestic market to support the development of new capabilities, investment in skills and knowledge and foster innovation, entrepreneurship and a global orientation.

18 June 2004

## **2. Introduction**

Professions Australia (PA) is a national organisation of professional associations. It currently has twenty-one member associations (see Attachment 1). Professions Australia is the business name of the Australian Council of Professions Ltd. The primary objective of Professions Australia is to advance and promote professionalism for the benefit of the community.

A number of PA's member associations have contributed to the preparation of this submission. However it is important to recognise that our membership is diverse and views about the relative costs and benefits of competition policy will vary depending on the nature of the service provided. Some member associations intend to make individual submissions addressing specific aspects of National Competition Policy (NCP) as it impacts on their profession.

Professions Australia recognises the significant benefits that flow from a competitive economy and the important role that NCP has played in creating a business operating environment which encourages professionals to be more innovative and responsive to consumer demands. While there is scope for the NCP process to deliver some further efficiency gains by addressing restrictions relating to some professions which impact on competition and are difficult to justify in terms of public benefit, it is also important that any future reform agenda adopt a focus which reflects the realities of the global market in which many professionals now operate.

Services, including professional services, account for an increasing proportion of economic activity in most mature economies. Many professionals including engineers, accountants, mining consultants, architects, landscape architects, quantity surveyors and planners are making a growing contribution to Australia's trade performance. It is important that any future NCP arrangements reflect the fact that Australian businesses, including professional services, are operating in a global market and the fastest growing markets are those where consumers place a premium on innovation, quality and responsiveness.

The ability of professional services to make a positive contribution to national economic, social and environmental outcomes will also be enhanced if the domestic market supports the development of new capabilities, investment in skills and knowledge and fosters innovation, entrepreneurship and a global orientation.

Therefore it is timely to review the NCP arrangements to consider the extent of the benefits the reform program has delivered to date and to identify the most worthwhile competition related reforms that could form the basis of any future reform agenda.

### **3. Terms of reference**

The Productivity Commission has been asked by the Government to report on:

- a) The impact of NCP and related reforms undertaken to date by Australian, State and Territory Governments on the Australian economy and the Australian community more broadly. To the extent possible, such assessment is to include:
  - i. impacts on significant economic indicators such as growth and productivity, and to include significant distributional impacts, including on rural and regional Australia; and
  - ii. its contribution to achieving other policy goals.
- b) At the Australian, State and Territory level, areas offering opportunities for significant gains to the Australian economy from removing impediments to efficiency and enhancing competition, including through a possible further legislation review and reform programme, together with the scope and expected impact of these competition related reforms.

In examining new areas, the Commission is to have regard to the Government's desire to focus new reform activity where there is clear evidence of significant potential gains, through improvements to Australia's international competitiveness and the efficiency of domestic markets.

### **4. Outcomes of current reform process**

Professions Australia supports the removal of rules and arrangements which limit competition in the provision of professional services to consumers where this is in the public interest. A competitive environment has the potential to deliver real benefits to consumers, including lower prices and improved quality of service. However, it is equally important to recognise that regulation of some professions may be necessary to ensure the interests of consumers are protected, particularly where there are significant information asymmetries between the professional and the consumer. Few consumers of professional services are well placed to judge the quality of those services, particularly if these services are rarely used.

Regulation of the professions needs to be addressed in a way that balances standards that protect the interests of consumers against market restrictive practices. It is also important to ensure that the policy approach to the professions is consistently applied and that the principles of competition within professional groups are promoted without compromising those aspects which clearly are of overriding concern to the public interest.

## **Benefits of reform**

It is the view of Professions Australia that NCP has delivered some positive outcomes in terms of price, improved quality of services and innovation to consumers of professional services. While a number of the professions were initially resistant to NCP, it is clear that as a result of competition reforms there has been significant attitudinal and cultural change across the professions.

As a result of NCP and the changing nature of the market place, professionals have a heightened awareness that they operate in a competitive environment which requires them to be more business like. A number of poor practices which delivered limited value to consumers have been eliminated, for example, the legal profession in some states has made significant progress in reducing anti-competitive practices through the reform of various regulations and structures.

The accounting profession is one of the least regulated professions in Australia. While subject to the Corporations Act which includes the stricter regulation of financial planning and audit services introduced recently as part of the Financial Services Reform Act, the profession is not subject to legislated registration or licensing requirements. As a result, there is a highly competitive market for accounting services, including the market for professional affiliation and certification.

A more competitive environment has also encouraged many professions to recognise the need to allocate greater resources into maintaining and marketing their “brand”. A number of professional associations have or are establishing registration systems to underpin the professional “brand” based on competency standards and ethical conduct. This allows them to market the additional benefits and protection registration offers to the consumer.

For example, CPA Australia invests heavily in developing its brand to ensure it represents the highest in professional standards and quality assurance to accounting, finance and business professionals and the public. CPA Australia requires that its members offering accounting services to the general public have professional indemnity (PI) insurance before they can be issued with a public practice certificate.

Continuous investment is essential to maintain brand equity in a market contested by a number of domestic and international competitors, and much of this investment is directed towards public education. The absence of legislated registration or licensing requirements for accountants means that industry bodies work hard to educate the public on the advantages of seeking accounting services from practitioners accredited through a professional body.

Brand marketing addresses some of the information asymmetries, as consumers are given assurance of the level of qualifications held by the service provider, the existence of professional indemnity insurance and dispute handling and disciplinary processes in the

event of dissatisfaction with the service. The public education initiatives that CPA undertakes independently and in partnership with other professional accounting bodies has, and continues to be, successful in developing public awareness of the available choices.

Many of the professions have also benefited from the reform process in a more general sense. A flexible and adaptable economy is an important pre-requisite for sustained economic growth and there is little doubt that reform has made an important contribution to Australia's recent growth performance which is of benefit to all businesses, including professional services.

Furthermore, the introduction of competitive neutrality has principally overcome the disparities between government owned and private businesses. Consequently, there has also been an increase in opportunities for the professions to move into a wide range of areas previously dominated by public sector suppliers. Those professions to have benefited from the increase in outsourcing include lawyers, engineers, accountants/auditors, property managers and management consultants.

### **Deficiencies of reform process**

While NCP has delivered some important gains, PA member associations have also identified a number of deficiencies in the current approach which may have reduced the potential benefits of reform to both consumers and professionals. The issues identified below may provide useful lessons for any future reform initiatives.

- **Emphasis on state based rather than national legislative review processes**

Professions Australia holds that state based legislative review processes may have led to some loss of consistency in legislation for individual professions across the states and territories. Different interpretations of NCP objectives and the public interest test can result in different outcomes from state based review processes. Furthermore, while Competition Payments can provide a strong incentive for reform, it may shift the focus to securing the payment rather than establishing an effective consultative process or securing well considered outcomes.

The National Competition Council (NCC) has encouraged jurisdictions to coordinate review processes impacting on the professions. However this has only happened on two occasions: for architects and pharmacists. This is also costly from the point of view of professional associations who need to respond to several review processes.

Almost all laws regulating the professions are subject to state government control. A reasonable expectation of the outcome of any reform process to address deficiencies in legislation regulating a profession is for a system of national registration or mutual recognition of legislative requirements between states. However this has not been the outcome and individual state/territory based arrangements remain in place for a number of professions including veterinarians, architects, pharmacists, engineers and dentists.

The lack of a national registration system and mutual recognition arrangements for those professions where registration is a legislative requirement creates a number of problems including:

- Variability in approach between states and territories relating to a range of issues including practice standards, restrictions on operation and continuing education requirements which can be confusing for those professionals needing to work across state borders;
- Reducing the mobility of professionals because the process of obtaining new registrations is often cumbersome and slow;
- Unnecessary costs imposed on professionals wishing to practice in more than one state;
- An unnecessary impediment to negotiating mutual recognition arrangements for some professions in relation to a free trade agreement (the Australia/US Free Trade Agreement provides a current example).

The existence of restrictions on the right to practice in another state/territory without prior approval by a regulatory body can act as a restriction on competition and reduce opportunities for professionals to broaden their experience and gain new skills. For example, a recent veterinary graduate seeking a short term work placement to broaden his/her experience may have to wait for three months to gain approval to practice in a different state. This acts as a disincentive to seek broader experience.

A national approach to legislative reform should have been an opportunity to encourage all states and territories to, at a minimum, adopt existing best practice provisions. There are, for example, a number of pro-competitive provisions in the Victorian *Architects Act* including industry and consumer representation on the Architect's board, well developed complaints and disciplinary procedures and provision for flexibility of access to registration through recognised alternatives which other jurisdictions have yet to make. While Queensland has retained and strengthened its Professional Engineers Act after the NCP legislative review, engineering continues to be poorly regulated in other states, in terms of managing the risks to public health and safety.

Professions Australia does however recognise that efforts to pursue national registration in the case of architects did not succeed for a number of reasons. There may be lessons from this process which may be useful in pursuing national review processes in the future.

- **Narrow focus of reform processes.**

While Professions Australia is supportive of the objectives of NCP, it is important that application of the policy is not perceived as having a narrow focus on efficiency as the only benefit the community is seeking from providers of professional services. The failure to optimise the outcomes from the application of NCP in relation to particular professions may suggest a need to examine the nature of the review process.



While the Competition Principles Agreement provides that governments assess the net benefits of different ways of achieving NCP outcomes, including taking into account environmental, social welfare and other issues, there remains a perception that reformers are narrowly focussed on economic outcomes.

There are a number of reasons why these perceptions may exist including:

- A top down mandatory approach;
- The difficulty of actually measuring concepts such as social amenity and public benefit;
- Review processes which appear to emphasise economic outcomes and which as a result, don't provide a forum for encouraging a broader debate about how individual professions may contribute to social and environmental outcomes;
- Some cynicism among reformers about the concept of "professionalism".

It is important that in defining the desired outcomes of a reform process that appropriate weight is given to the social, environmental or other benefits that might flow from the maintenance of any restrictions such as reservation of title or registration (whether through legislative means or professional association), in relation to a specific profession. Professional services embody intellectual and technical inputs acquired through high standards of education and training that can provide broader benefits to the community.

The issues are complex and are difficult to assess in the absence of mechanisms to measure public benefits such as social amenity. However, this does not suggest that these benefits are not real. A greater appreciation of the concept of professionalism and its benefits by those conducting reviews might form the basis for a more constructive process.

Being business like should not be the only objective of a professional practice. Professionals need to balance the challenges of running a profitable business with broader ethical and other considerations. It is important to develop an understanding of which elements of "professionalism" are relevant in a contemporary society and which are now redundant or are simply based on preserving areas of long standing privilege.

A commitment to ethical behaviour and service is assuming greater importance given the widespread cynicism in the community about business practices generally. There are a growing number of well informed consumers who are choosing to purchase products and services based on ethical and other value-based considerations. The emphasis that professionals place on investment in educational attainment and continuous professional development is also of fundamental importance to the international competitiveness of professional service providers. Investment in knowledge underpins the quality of service provided.

A process which provides for a broader debate and discussion on issues such as social amenity, the measurement of public benefit, and the qualitative differences between the

professions and the types of services provided may create an environment which is more conducive to developing a shared view of the outcomes which are in the best interests of the community as a whole. Part of the problem seems to be that reformers and many of the professions simply do not speak the same language.

- **Loss of public sector expertise**

While competition reform has created many opportunities for small business and providers of professional services, a number of Professions Australia member associations have expressed some concern about the loss of technical expertise in the public sector.

The loss of technical expertise in state, territory and local government agencies as they have reduced in size increases the risk that contracts for engineering, information technology and other technical goods and services will not meet government or community expectations. Many government agencies no longer have the technical expertise to be an informed buyer of technology related products and services.

- **Multi-disciplinary practice**

Some professions are now free to enter into multi-disciplinary practice (MDP) arrangements with other professional service providers. It was expected that this would stimulate opportunities to leverage synergies from the integration of related disciplines, however the level of interest to date has been low. This lack of interest is probably a consequence of a number of factors.

Firstly, general accounting and financial planning specialists have traditionally had the most obvious synergies from which to leverage MDP partnerships. However, a CPA Australia decision to include financial planning practitioners in the definition of a public accountant made the issue of joint accounting / financial planning MDPs for these members largely irrelevant. Secondly, multidisciplinary accounting and legal practices also have potential synergies however lawyers are prevented by their governing bodies from entering into MDP arrangements in every State except NSW. A third factor is that many accounting professionals have and continue to include other professionals such as engineers, economists and IT consultants within their practices, however these non-accounting professionals are engaged under employee or minority partner arrangements. The practices can therefore enjoy effective MDP status exclusively under the CPA banner and without the need to formalise any special relationship.

Despite expectations that MDPs would become common once the barriers to competition were removed, in reality most practices found alternative means of providing comprehensive services to customers, demonstrating that the restriction on MDPs was not really a major problem.

## **5. Future reform agenda - overview**

National Competition Policy has had two main aims. The first is cost-reducing efficiency improvements that enhance productivity; the second is the creation of an economic environment that promotes sustained economic growth.

Professions Australia holds that a continuing commitment to competition reform is essential to provide a competitive business operating environment which stimulates efficiency and innovation. However Professions Australia considers that any future reform initiative may need a different focus, one which reflects the changing nature of global competition and recognises the importance of securing broader community support for any renewed reform agenda.

The pursuit of further opportunities for worthwhile productivity gains needs to take into account two realities:

- The likely future sources of productivity gains and the role of knowledge, skills and innovation in influencing long run economic growth; and
- Australian businesses need to be positioned to meet the challenges and capture the opportunities presented by globalisation. Government policies, including competition policy, need to pay closer attention to the fact that many Australian professionals are now operating in a global market.

## **6. Options for future reform agenda**

### **Completing current reform agenda**

Professions Australia considers that there is still some scope for achieving efficiency gains from some targeted reform initiatives as outlined below:

- **Pursuing opportunities for national registration**

There would be benefits to both consumers and professionals from pursuing opportunities for national registration arrangements for a number of professions (for example, pharmacists, veterinarians, dentists, architects and engineers).

Professions Australia recognises that previous attempts to achieve national registration have had mixed results. Nonetheless there are a number of benefits, in putting national registration firmly on the agenda in any future reform process including:

- Adoption of best practice provisions, consistent with competition policy principles, by pursuing consistency of state legislation as an important objective;

- Providing freedom for professionals to practice interstate if registered anywhere in Australia;
- Single registration fee irrespective of state or territory;
- Administrative efficiencies particularly if an outcome was a single registration authority;
- Full cost recovery may be a viable option as a result of administrative efficiencies.

To ensure a greater chance of success in any future efforts to deliver a national system of registration and other reforms in respect of individual professions, Professions Australia suggests the following be given consideration:

- Commence with those professions actively seeking national registration, where industry leadership recognises that benefits also need to be delivered to consumers.
- Identify up-front, outcomes of the reform process which are clearly of some benefit to the profession concerned, for example, delivering a national system of registration, improved access to global market opportunities etc.
- Establish agreement between the stakeholders about the scope and meaning of the public interest test prior to commencement of any review process – one option may be to develop an analytical framework that addresses the dimensions of professionalism and the qualitative difference between the professions.
- Use of criteria which give explicit recognition to the value that investment in education and continuing professional development provides to the community in terms of social amenity and economic outcomes.
- The Competition Payments arising from the review of a particular profession could be directed to delivering improvements in the public infrastructure relevant to a particular profession, for example, improvements in health care, quality of university education, availability of university places, addressing the limited supply of professionals in regional Australia.

- **Providing for incorporation of some professional practices**

Unlike many businesses, a number of professionals are not able to engage in their profession with all the advantages of a limited liability company or other limited liability structure.

The regulation of many professions should focus on public interest grounds and compliance by individual professionals with appropriate ethical standards and professional duties rather than on the regulation of the business entity. The latter is likely to have little bearing on the maintenance of professional standards.

Removing the restriction on some professionals forming limited companies could increase investment in the provision of some professional services. It should be noted however, that incorporation may not be appropriate for all professions. For example, the primary function of health professionals such as doctors and dentists is the health and welfare of the patient. Directors of companies have a duty to act in the best interests of the company and their shareholder which has the potential to compromise the health professional's primary duty of care to the patient.

It may be necessary to include the principles relating to ethical obligations and professional responsibilities in any legislation permitting incorporation of some professional practices. It would be necessary for legislation and professional conduct rules to prevail over legislation regulating business structures in the event of any inconsistency becoming apparent. It is also important that such an initiative is a national one.

### **Facilitating innovation**

While the NCP and other competition related reforms have been wide ranging, they have largely focussed on the efficiency of domestic markets. The underlying objective of NCP is to improve the competitiveness and flexibility of the Australian economy on the basis that increased competition was expected to provide the incentive to raise productivity and make the economy more internationally competitive.

A growing body of empirical evidence suggests that the development and application of knowledge now plays the primary role in driving productivity growth (and hence the capacity to deliver sustainable economic growth). There is an emerging consensus that, without increased investment in, and more appropriate management of national knowledge capacity and the development of capabilities at the business level to exploit this knowledge for commercial advantage, the scope for further productivity gains may be diminishing.

Innovation is increasingly recognised as the key to successful competition in the global knowledge-based economy. The OECD has estimated that innovation is the key driver of economic growth in developed countries with at least 50% of growth directly attributable to innovation.

Innovation is the outcome of learning processes through which economically useful knowledge is accumulated. The innovative capacity of an economy will be influenced by the characteristics of its *national innovation system*, that is, the national institutions, their incentive structures and their competencies, that determine the rate and direction of technological learning (or the volume and composition of change generating activities) in a country".<sup>1</sup>

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<sup>1</sup> (Patel and Pavitt, 1994)

Globalisation does not diminish the importance of the *national innovation system*. On the contrary, it enhances the importance of the *national innovation system* since it provides location-specific assets that either create incentives for localisation, or enhance the productivity and production complexity of other geographically specific assets. Education and infrastructure policies, for example, play a critical role in enhancing geographically specific assets.<sup>2</sup>

### **Regulation**

Regulatory frameworks are an important element of the *national innovation system*. Regulation influences the incentive to innovate and can limit or encourage competition in the development of new products and services. Regulation is also becoming increasingly internationalised.

Any future reform agenda should place a greater focus on the important role regulation plays within our “*national innovation system*”. There may be opportunities for enhancing our innovative capacity, and hence productivity, through regulatory reform in the following areas:

- Where domestic regulation/standards are impeding access to global markets (i.e. firms have to provide different solutions for domestic and overseas markets) and limiting investment in innovative products/services because of the size of the domestic market.
- Where the compliance burden is impacting negatively on entrepreneurial activity.
- Where an outcomes approach to regulation can increase the incentive to deliver new (and innovative) products and services or reduce costs of products or services by focussing on outcomes rather than processes. An example of performance based regulation is the Australian Building Code.
- Where regulation might be used to create competitive advantage in global markets by regulating attributes such as quality or provide an incentive to find new solutions to particular problems, eg by imposing stricter environmental standards or defining particular social outcomes.

### **Entrepreneurship**

Risk taking and innovation are central characteristics of entrepreneurship. Innovation which results in new goods and services, and risk taking, which involves identifying new market opportunities, have to co-exist and complement each other in order for entrepreneurship to survive. While there is considerable debate about the extent and nature of the contribution of entrepreneurial activity to economic growth, in theory, high levels of entrepreneurship facilitates change and industry restructuring.<sup>3</sup>

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<sup>2</sup> Keith Smith – The Knowledge Economy in the Australian context. 2004: Australian Business Foundation Expert Paper

<sup>3</sup> OECD – Science and Technology Outlook: Drivers of Growth 2001.

Many professionals are small businesses. Regulations that discourage the creation of new businesses, the expansion of existing ones and the ability of smaller firms to compete with larger businesses will influence the level of entrepreneurial activity.

Entrepreneurial activity can be measured by the level of firm churn in an economy, the rate of business entries and exits. Economic efficiency is enhanced as less productive businesses exit and are replaced by new businesses with new ideas, new products and new markets. To facilitate growth, there is a need to ensure that the regulatory environment does not unnecessarily create barriers to entry and exit.

Nor should regulation itself be a barrier to firm productivity. Regulatory compliance costs impede business productivity and in some cases, artificially restrict growth. Small businesses suffer a disproportionate level of compliance costs compared to large businesses. Complexity of regulation, constant changes and lack of consistency across jurisdictions all impact on productivity. Every effort should be made to ensure the regulatory environment appropriately balances desired public policy outcomes with an efficient business environment.

A particular concern for business is the lack of any post regulatory assessment of the impact of regulation. There is little evidence to suggest that the Regulation Impact Statement process adequately assesses the impact and cost of regulation on small business. A formal process is required to ensure agencies introducing regulation are accountable for the cost of regulation and are able to quickly and efficiently address problems with regulations that have been introduced and can be seen to impact negatively on business.

### **Creating sustainable communities**

A reform agenda which has a focus on the development of sustainable communities has the potential to make a significant contribution to productivity growth through efficiency gains and removing the impediments to more innovative approaches to urban/regional development.

Professions Australia understands that this is an area where it has proved difficult for NCP to deliver significant reform despite there being many impediments to achieving better outcomes from urban/regional planning processes. These processes are multidimensional and can suffer from a lack of integration between different levels of government and the various public sector policy and program activities that impact on the sustainability of urban and regional communities.

Sustainable communities are defined as communities which are environmentally, socially and economically sustainable. They have achieved more efficient use of natural resources, minimal waste and pollution, equity and equal opportunity for the various

groups within the community including the provision of adequate services and are maximising the economic potential of the community.

There are a number of ways in which well planned and managed cities and regional communities can make a contribution to productivity growth<sup>4</sup>:

- Through the provision of high quality and efficient transport and communication networks urban and regional communities will be better connected to domestic and global markets.
- How cities are managed with respect to settlement patterns, density, distribution of activity centres, public and private transportation systems and environmental quality can have a significant effect on the cost of doing business. Good urban design can also positively influence social and health outcomes and contribute to lower costs for the provision of health and other services.
- Well designed, managed and resourced urban communities can provide an environment which fosters innovation by offering a depth of cultural and lifestyle experiences. As a result they are better placed to attract and retain highly skilled or knowledge workers who take lifestyle considerations into account when choosing where to work. Other important considerations include for example, the co-location of business clusters, with provision for interaction with R&D and education providers within communities.

The *Melbourne 2030* program<sup>5</sup> attempts to establish a holistic approach to sustainable urban planning through a number of measures including reducing energy and water consumption in urban dwellings, improving internodal public transport links and creating conservation areas within existing urban areas.

It also outlines the development of neighbourhood activity centres that consolidate local business and community activities in one location. This is aimed at reducing the number of private vehicle trips required for different activities such as sport, childcare and health care. Medium density housing can then be built around the activity centres to encourage further urban consolidation and reduce the need for private vehicle transport.

The *Melbourne 2030* program has established the Urban Growth Boundary (UGB) that sets a limit for long term urban development in Melbourne. Land outside of this boundary is designated for conservation, agriculture, resource development and infrastructure development such as water supply and sewerage treatment facilities. The aim of the UGB is to restrict urban expansion that places increasing pressure on existing infrastructure.

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<sup>4</sup> Liveable Communities – How the Commonwealth can foster sustainable cities and regions – a national policy statement by the Planning Institute of Australia – February 2004

<sup>5</sup> Submission to Inquiry into Sustainable Cities 2025 House of Representatives Standing Committee on Environment and Heritage – Engineers Australia 2003



There are significant costs to Commonwealth programs from poorly managed urban environments; for example, poorly designed regulations and poor planning can impact on the cost of housing and the delivery of services. A national initiative on sustainable communities would provide a strategic context for a number of Commonwealth policies and programs including housing, immigration, infrastructure spending, environmental policies and water policy. It would also provide a framework for the integration of the relevant activities of all levels of government.

Implementation of sustainable development strategies and building more effective links between planning, economic, social and environmental outcomes will require:

- the introduction of institutional reforms to bring about better integration of planning and budget processes;
- improved institutional arrangements for development assessment and infrastructure provision;
- addressing impediments to connecting government functions which have previously been seen as separate;
- Addressing impediments to the provision of some social infrastructure services (such as health, education and training and community services) to urban or regional communities to provide opportunities for more readily available and innovative services;
- The use of market based instruments to deliver better environmental outcomes, for example, charging or pricing regimes to encourage the reduction of energy consumption and greenhouse gas emissions, introduction of national energy and greenhouse auditing for all new and existing residential and commercial buildings or applying demand management to restrict the amount of water used by the community and industry.

While urban management and planning are largely a state and local government matter the COAG NCP framework could be adapted to facilitate reform of institutional arrangements and responsibilities and might include some of the following mechanisms:

- By establishing a “Sustainable Development” Commission to develop a framework and set broad objectives;
- Conducting a national inquiry to inter alia, identify impediments to the development of sustainable communities and make recommendations about alternative approaches;
- Encouraging other States and Territories to adopt programs such as *Melbourne 2030* - specific plans could be developed for all the major cities in Australia that incorporate aspects of sustainable development in future planning and management of infrastructure;
- Establishing funding mechanisms where payments are contingent upon satisfactory progress against milestones and provide the incentive for reform, particularly at the local government level;

- The provisions of resources to research and develop pricing models which would be of assistance to individual communities in pursuing their sustainable development objectives.

The COAG model would require some adaptation, that is, it would need to be less top down to allow communities to make their own decisions within the overall framework.

A commitment by governments at federal, state and local government level to the development of sustainable communities can also contribute to productivity growth through the development of new capabilities which leads to the export of innovative services, for example, by developing innovative solutions to specific planning or environmental problems.

### **Facilitating global integration and trade**

The growing internationalisation of services trade and the greater ease with which services markets can be contested have created opportunities for Australian suppliers of professional services. The application of information and communications technology means that many services that were previously considered non tradeable are now being actively traded.

While there may be a public benefit in maintaining minimum acceptable levels of professional standards for the domestic market, the maintenance of standards of professional qualification is also increasingly relevant in the context of international trade. It is important that any future reform process takes international trade issues into account.

Many professional services including engineering, accounting, architecture, planning and quantity surveying are now effectively operating in a global market. Estimates of up to 25% of fees earned through export activities are not uncommon for many professionals groups. Australian professionals are well placed to secure overseas business where the clients can have confidence in the quality of work because it is underpinned by a registration or accreditation system.

Most economies impose some restrictions on domestic and foreign providers of professional services. Statutory registration schemes for individual professions are used by many nations with which we trade and compete. The removal of legislated registration schemes for some professions could have serious implications for the ability of these professions to sell their services in overseas markets.

For example, in most countries engineering and architecture are accredited professions. Many other professions such as accountancy, surveying and legal services are also subject to accreditation or licensing arrangements. Some of the most stringent barriers exist in APEC, North American and many European countries (with the notable exception of the UK and Finland). While much of the regulation internationally is defended on the grounds of quality assurance in the provision of services, the relative free and competitive

environment that currently exists in Australia generates asymmetries in the cross-border trade in accounting services.

Gaining access to many of our most important overseas markets will rely on increasing the international recognition of qualifications and practice competency and the negotiation of professional accreditation and reciprocity agreements.

It is important that any future reform processes recognise that international mutual recognition agreements will be under threat unless we can achieve national registration or mutual recognition arrangements for the relevant professions. The lack of such arrangements can limit the benefits that will flow to Australian professionals from free trade agreements.

## **ATTACHMENT 1**

### **Member Associations of the Australian Council of Professions Ltd, trading as Professions Australia**

Association of Consulting Engineers Australia (ACEA)  
Audiological Society of Australia (ASA)  
Australasian Institute of Mining and Metallurgy (AusIMM)  
Australasian Podiatry Council (APODC)  
Australian Computer Society (ACS)  
Australian Dental Association (ADA)  
Australian Institute of Interpreters and Translators (AUSIT)  
Australian Institute of Landscape Architects (ALIA)  
Australian Institute of Quantity Surveyors (AIQS)  
Australian Property Institute (API)  
Australian Veterinary Association (AVA)  
CPA Australia  
Engineers Australia  
Institute of Actuaries of Australia (IAAust)  
Institute of Chartered Accountants in Australia (ICAA)  
Institute of Management Consultants (IMC)  
New South Wales Council of Professions (NSWCOP)  
National Institute of Accountants (NIA)  
Pharmaceutical Society of Australia (PSA)  
Royal Australian Institute of Architects (RAIA)  
Spatial Sciences Institute (SSI).