

# **Victoria looking ahead: Policy priorities for the Victorian government**

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## 1.0 EXECUTIVE SUMMARY

- The election of the new government in Victoria in November 2010 provides an opportunity to embark on a reform agenda to improve living standards and quality of life for Victorian people.
- It is proposed that the following reforms and policy priorities be established in the following portfolio areas:

### ***1.1 Economy and Budget***

- Pursue unilateral economic reform, outside of COAG processes, to boost economic growth and productivity.
- The government should refocus its expenditure priorities towards core public goods; for example, to help achieve this the government should withdraw support for Victoria's major events strategy, refuse to bail out the Formula One Grand Prix, and refrain from investing in new sports facilities and facility upgrades.
- Explore additional opportunities to separate the government's role as purchaser and provider of services.
- Short to medium term tax reform should prioritise the reduction of stamp duties.
- Victoria's fiscal institutions should be renovated by introducing fiscal rules that cap revenue and spending growth.

### ***1.2 Health***

- The government should assume a 'beds not bureaucrats' policy to redress the shortage of public hospital beds in the face of a growing state population.
- Initiatives should be introduced to facilitate the continuing growth of the private hospitals sector, as a way to alleviate pressure from public hospitals throughout the state.
- Measures to enhance the transparency of public hospital performance should be enacted.
- It is unnecessary for Victoria to remain a signatory to the COAG national health reform agreement that is a recipe for more bureaucracy and blame-shifting between levels of government.

### ***1.3 School Education***

- A competitively-neutral recurrent funding scheme for all students should be strongly considered as an educational policy priority.
- School self-management for Victoria's public schools should be reinvigorated, for example in the areas of greater curriculum and human resources management autonomy for individual schools.
- Individual government schools should be encouraged to specialise in certain subject areas, particularly for the senior years of schooling.
- The government should pursue as a top priority teacher quality in Victoria's schooling system.

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## **1.4 Energy**

- The government should invite bids for a new coal power station in Victoria with the winning bid (subject to assurances that it is 'state-of-the-art') being assured by the state that it will be reimbursed for any future carbon tax.
- Until policy is better defined, the government should suspend approvals for renewable facilities that have not been financially committed.

## **1.5 Transport**

- The government should re-franchise V-Line Passenger services for Victoria's regional commuters.
- The \$100 million maintenance backlog for regional roads should be addressed as a priority.
- Metropolitan rail timetables should be radically simplified to improve service reliability.
- An audit of the metropolitan rail system should be undertaken to identify and address existing infrastructure inadequacies.
- The government should reconsider potential alternatives to the announced policy of two protective officers on every train station.
- The structure and timing of the independent Transport Authority should be detailed.
- A thorough audit of the Myki project should be instigated.
- There is an urgent need to investigate the scope for projects such as the Mill Park extension and Regional Rail to be delivered at a cheaper cost than currently predicted.
- In the medium term renewed bus contracts should be awarded on the basis of competitive tendering and allow competition in the sector.
- The government should consider if pricing policy can better match demand to available supply of capacity both on board public transport vehicles and on roads.
- The current taxi licensing system should be reformed, to be replaced by a system of as-of-right licensing subject to suitability checks.
- It is essential that the metropolitan road network be upgraded to cope with increased demand.

## **1.6 Housing**

- Abolish the Urban Growth Boundary and set time limits on state and local government agencies to require development to proceed.
- Place strictly defined limits on the nature of environmental and heritage matters that can prevent or delay development
- Prevent regulatory authorities from specifying the nature of the development.
- Measures that increase the on-costs of housing, such as '5 Star' energy requirements on new houses and expensive additions to new homes, should be removed.
- Minimum subdivision rules in rural areas should be removed.
- Departmental directives to councils to use minimum projected sea level rises as a basis for planning should be removed.

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## **1.7 Regulation**

- The government needs to recognise that the complexity of legislation and regulation, and the frequency with which it is enacted, poses a restraint on economic and social development.
- Regulatory Impact Statements (RIS) and Business Impact Assessments (BIA) should be set to identical standards.
- BIAs should be released for public consumption as legislation is presented to Parliament.
- Exemptions granted to the RIS and BIA process should only be granted by the Premier, accompanied by published documentation for these reasons.
- The processes by which RIS and BIA are produced needs to be independent.

## **1.8 Gaming**

- The government should resist any push to reduce the cap on poker machine numbers in Victoria and, longer term, raise the cap at least in line with population growth.
- The government should defend the rights of clubs and businesses to operate poker machines, and consumers to use them, without local communities having a power of veto.
- The government should oppose any moves by the commonwealth government to impose mandatory pre-commitment for poker machine use.
- Stated opposition to the Mildura casino proposal should be revisited and, indeed, the government should look favourably on other similar proposals to end the current casino monopoly.
- The former government's decision to merge the VCGR with Liquor Licensing Victoria should be reversed.

## **1.9 Local Government and Planning**

- Local governments should have their roles and responsibilities clearly prescribed by state government, with any codification based on the principle of legislative and regulatory neutrality.
- The government should reform the inappropriate capacity of local governments to act both as regulator and adjudicator of areas within its power.
- The state Constitution should be amended recognising the responsibility of state and local governments to compensate for undermining property rights through direction or regulatory acquisition.

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## **1.10 Agriculture**

- Abolish the Fire Services Levy immediately prior to the current fire season.
- Abolish Labor's proposed \$180 charge on trucks entering the Port of Melbourne.
- Enact rate relief by tying the amount of council rates on farms to the proportion of farmers in a local government area.
- Ensure new investment in rail freight transportation.
- Existing land use regulations, including in the areas of native vegetation, land use restrictions and planning schemes, should be reformed.
- The proposal to strip 37 per cent of water entitlements from Murray-Darling Basin farmers must be strenuously resisted by the state government.

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## 2.0 INTRODUCTION

The 2010 Victorian election result, which ushered in a return of a Liberal-National Coalition government after eleven years, was critical from two interrelated perspectives.

Taking into account the depreciating political asset that is longevity in office, the election represented a significant rebuff of a Labor government that did not meet reasonable expectations in the numerous areas of state government service delivery.

Whether it be (published or secret) hospital waiting lists, lagging school education outcomes, road traffic congestion, or a lack of reliable public transport services, the election result was a sharp reminder to state policymakers of both political persuasions that Victorian voters expect a strong focus on the first-order issues of providing efficient and effective services.

The election victory for the Coalition was also significant from a national perspective, not least because of the shift in political sentiment within Australia's second largest state (in terms of size of economy and population).

Consistent with the statements of Premier Ted Baillieu that the new government intends to pursue a 'competitive federalism' approach, the new government has signalled an intention to unilaterally solve Victoria's policy problems without necessary recourse to the financial purse or policy directive of the commonwealth.

This promises to change the dynamic of federal-state relations for the better, with the promise that states will compete against each other for capital and labour by streamlining the size and scope of government intervention.

These two messages from the election are not inconsistent with each other since, after all, governments should not attempt, and realistically cannot succeed in any case, to be all things to all people.

With real limits to fiscal resources available to a state government, the Victorian government should seek an innovative balance between marshalling taxpayers' funds to redress problem areas left behind by the previous government and leveraging a much greater role for the private and non-governmental sectors in service provision.

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Such an approach would ensure that services that Victorians expect are delivered without breaking a limited state budget, while also providing policy leadership in what promises to be a more competitive federal environment.

The following provides a collection of short essays by Institute of Public Affairs staff in a range of critical state government portfolio areas. With many refreshing reform ideas expressed in the following pages, it is hoped that this paper will inspire policy reforms by the new Victorian government in the interest of all Victorians.

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### 3.0 AGRICULTURE

*Louise Staley*

There are 31,000 farms in Victoria. Nearly ninety percent of Victoria's farms are dairy, beef, sheep or cropping farms. Most farms remain in family ownership. The average size continues to expand and this trend must not be hampered by ill-considered policy if agriculture is to capture the economies of scale necessary for economic viability.

At over \$5.3 billion, farm exports constitute a major component of total Victorian exports. As an export sector operating in highly corrupted and subsidised markets, the ability of Victorian farmers to compete successfully is dependent on them achieving very low cost structures and high productivity. Over the past 30 years, dairy and cropping have demonstrated very strong productivity gains with cropping outstripping that of the general economy. Victorian agriculture pays its way but is being hampered by a succession of anti-business and anti-farm policies.

The most important reforms for the sector improve farm profitability through lower taxes, better transport infrastructure and lighter land regulation.

The Victorian government has an opportunity to undertake immediate reforms to encourage agricultural activities throughout the state. These include:

- Abolish the Fire Services Levy. While this is Coalition policy, it needs to be implemented immediately prior to the current fire season.
- Abolish Labor's proposed \$180 charge on trucks entering the Port of Melbourne. The agricultural sector is the largest exporter using transport services at the Port of Melbourne, and hence the charge represents an insidious tax on Victorian agriculture.

Other policy strategies to be pursued in the short to medium term include the following:

Rate relief – tie the amount of council rates on farms to the proportion of farmers in the local government area. At present, some councils raise nearly 50 percent of rates from as little as 10 percent of farm ratepayers. This is iniquitous as most council services are now population-based rather than property-based.

Reinvest in rail freight – the current neglect of freight rail, particularly the grain network, has the effect of transferring infrastructure costs from the state government to local government via increased road maintenance bills. In addition, because of the current rail, port and silo configurations the downgrading of rail for export grain weakens export capacity. A possible model would be similar to one used in South Australia where state and federal governments, the rail companies and the grain growers all contributed to new investment in the rail system.

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Reform land and water use regulation – excessively prescriptive native vegetation, land use restrictions and planning schemes are destroying the value of agricultural land and denying farmers who want to retire maximum exit values. The entire native vegetation framework, and particularly the net gain provisions, needs to be reformed. Similarly, the 40Ha minimum farm subdivision merely creates hobby farms; it fails to achieve its stated purpose of protecting productive agricultural land. Moreover, in yet another example, the current DSE directive to use a minimum projected sea level rise leaves much of Victoria’s coastal land unable to be developed for housing despite the clear demand of ever-increasing numbers of Victorians to live beside the sea.

Lastly, the proposal to strip 37 per cent of water entitlements from Murray-Darling Basin farmers must be strenuously resisted by the Victorian government.

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## 4.0 ECONOMY AND BUDGET

*Julie Novak*

Despite rhetoric by the previous government extolling its economic management virtues, Victoria has been one of the worst economic performers in the commonwealth over the past few years.

From 1999-2000 to 2009-10 the Victorian economy has grown at an average annual compound growth rate of 2.8 per cent, less than the national average of 3.1 per cent over the same period. Victoria's share of national GDP fell from 23.4 per cent to 22.8 per cent, as has its share of business investment and exports.

In terms of the level of output per person, Victoria shared the lowest average annual growth rate with NSW (1.2 per cent). In addition, over the past two years real GSP per capita in Victoria had fallen by 1.5 per cent – in other words, on a per head basis the state economy has shrunk in recent times.

Recent analysis also suggests that Victoria's labour productivity performance in 2008-09 was below the national average, with productivity growth generally slowing over the course of the past decade. The maintenance of this trend would suggest a long term reduction in living standards for average Victorians.

The maintenance of a budget surplus (albeit in trend decline, and supported by significant growth in commonwealth grants) overshadowed a record of fiscal profligacy by the previous government. Since 2000-01 (the first full year of the GST reforms) both the increase in general government sector revenue and expenses exceeded real per capita growth. For example, if revenue growth were restrained to population growth plus CPI then Victorians would have saved a cumulative \$55.3 billion over the last decade (Figure 4.1).

Similar implied savings could have been accrued if Victorian general government sector expenses growth were capped on a real per capita basis.

The annual IPA *Business Bearing the Burden* state tax benchmarking reports have shown that Victoria consistently imposes the highest stamp duties on a medium-sized business in Australia. Stamp duties are a pernicious form of tax imposed on various transactions, which impede investment and business growth throughout the state.

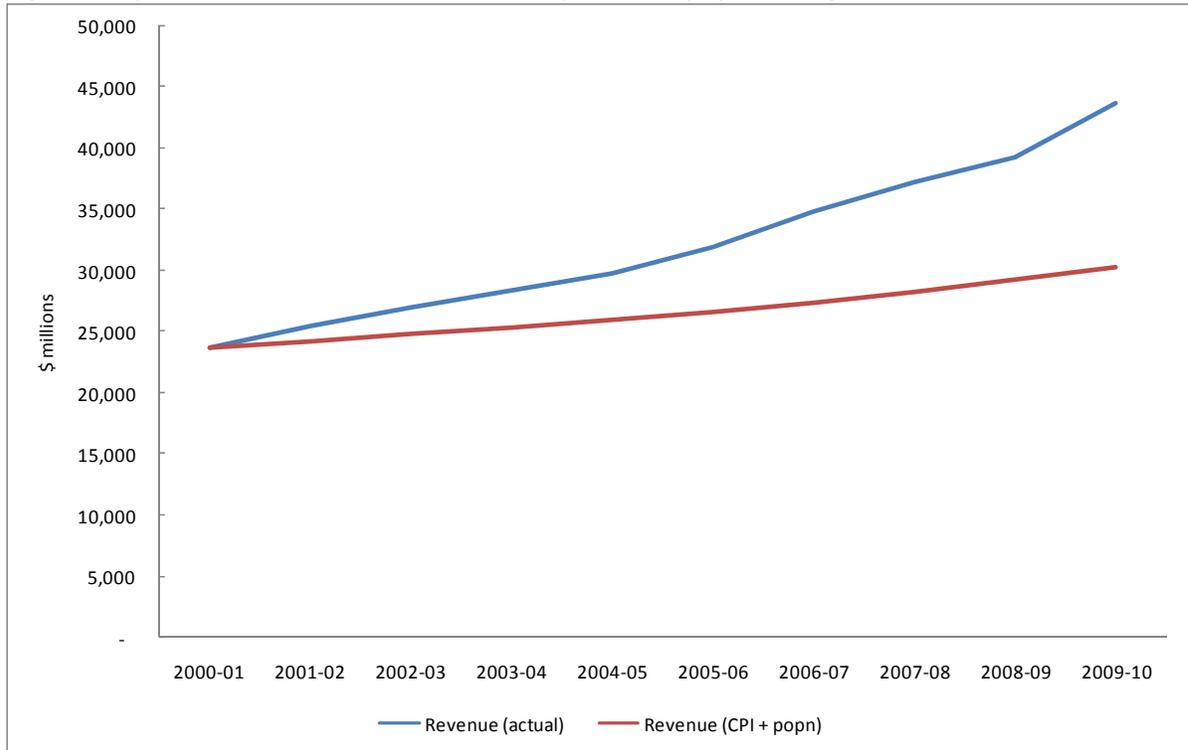
Victorian government expenses have grown at an average annual rate of 7.4 per cent since 2000-01, with strong increases in housing and community amenities (11.3 per cent), public order and safety (10 per cent), health (8.5 per cent) and social security (8.1 per cent). This spending rate is in excess of population growth and inflation combined.

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Notably the bulk of government expenditure is in the area of 'merit goods,' which can be suitably provided by the private sector often at cheaper cost, rather than in the areas of core public goods (defined for the purpose of this paper as the functional spending areas of general public services, public order and safety and 'other' (including public debt transactions)).

**Figure 4.1 | Actual revenue versus revenue adjusted for population growth and inflation**



Data for general government sector.

**Source:** Victorian Budget Papers; Institute of Public Affairs calculations.

It is estimated that, in 2009-10, the Victorian government spent approximately \$8 billion on core public goods and \$35 billion on an assortment of merit goods. By comparison, the level of state-own revenue was \$22 billion. This suggests that the revenue take was more than sufficient to pay for the core functions of government, without having to rely on commonwealth grants for the additional merit good expenses that conceivably crowd out the private sector.

The growth in state bureaucracy and employee expenses represents a significant strain on the \$43 billion state budget.

According to data provided by the state government, the number of Victorian public sector workers have increased by over 70,000 people to 258,500 people in 2009. Wage and salary expenses for general government sector workers grew strongly, at an average annual compound rate of 7.3 per cent from 2000-01 to 2009-10.

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The capacity of the government to contain the costs of public sector employment will be challenged in the short term with police and teachers unions already seeking above-inflation salary increases for their members. A range of measures have been commended to state and territory governments by IPA staff to restrain the growth in state bureaucracy and its associated costs.<sup>1</sup>

The tendency of the former government to expend significant amounts of money on major events and sporting facilities is a case in point.

Despite the proliferation of consultancy studies and political documents suggesting that major events have an economic return, the academic literature suggests unambiguously that this is not the case. The literature suggests that the evidence for economic gain is either weak or clearly negative.<sup>2</sup> This finding extends to other sport subsidies like stadium development and upgrades. As a consequence:

- The new government should withdraw its support for Victoria's major events strategy. This includes reducing the cap on major events expenditure, with the aim of its eventual elimination.
- The government should refuse to bail out the Formula One Grand Prix.
- The new government should refrain from investing in new sporting facilities and facility upgrades. The new government's refusal to honour Labor's commitment to expend \$30 million on Ballarat facilities is a step in the right direction.

In general terms, there is an urgent need to arrest Victoria's economic underperformance and fiscal excesses. This is acknowledged by the Coalition's election commitments including a comprehensive audit of state finances, state taxation review, and an in-depth assessment of Victorian competitiveness. The Coalition also announced prior to the election a new framework for the usage of proceeds of public sector borrowings.

Consistent with these initiatives, the Victorian government should implement the following policy strategies:

- Pursue unilateral economic reform, outside of Council of Australian Governments (COAG) processes, to boost the state's economic growth and productivity performance. These include reforms in the areas of regulation reduction, encouraging greater private sector involvement in service delivery, and reduction of anti-business taxes, fees and charges.

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<sup>1</sup> Julie Novak, 2009, 'A growing risk: The impacts and consequences of rising state government employment', IPA Occasional Paper.

<sup>2</sup> See, for instance, Dennis Coates and Brad R Humphreys 'Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events', *Econ Journal Watch* v5 n3, September 2008; Trevor Mules, 'Taxpayer Subsidies for Major Sporting Events' *Sport Management Review* 1998; Tyler Cowen, 'Should Governments Subsidise Stadiums and Events?', New Zealand Business Roundtable, 1999. A useful evaluation of the discrepancy between consultancy economic impact studies and the academic literature is Ian Hudson, 'The Use and Misuse of Economic Impact Analysis: The Case of Professional Sports', *Journal of Sport and Social Issues* 2001

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- Explore additional opportunities for the separation of the government's role as purchaser and provider of services, with government divesting from the direct provision of merit goods and allotting funding vouchers to consumers where applicable.
  - Short to medium term tax reform should prioritise the reduction of stamp duties to support business investment and growth in the state.
  - Building on the Coalition's commitment of a \$100 million budget surplus target, Victoria's fiscal institutions should be renovated by introducing a fiscal rule regime that caps revenue and expenditure growth to that of population plus inflation.

### **Victoria must forestall electricity shortages and prevent price increases**

The last major power station built in the state – the 1000 MW Loy Yang B- was completed in 1996, though smaller gas turbine facilities (with a total capacity of around 900 MW) have been commissioned since.

### **Wind and renewables – a costly approach**

Most new Victorian capacity in recent years has been wind, with 430 MW installed and a similar amount planned. Wind turbines only provide on average approximately a quarter of their maximum capacity and are worth less than 10 per cent of the great coal fired stations in terms of their ability to provide firm capacity whenever it is needed.

Wind power is also strongly opposed by many environmentalists.

New gas fired stations also require a ‘carbon price’ to boost the costs and reduce the competitiveness of coal fired power stations, (gas fired generation only emits half the carbon of coal per unit of energy).

Existing *de-facto* carbon tax effects for Australia and across major countries will be identified by the Productivity Commission in a report to be published in May of next year.

In the meantime, we can estimate tax effects of the Commonwealth’s “20 per cent by 2020” renewable program. This means replacing 20 per cent of our supply with unreliable energy that is over three times the cost of coal based power. The direct price increase to household electricity bills is at least 10 per cent. In addition, there are costs of dearer products and subsidies. A carbon tax would build on these existing imposts, and if levied at \$30 per tonne it would impose a direct cost of another 15 per cent.

Victorian coal is non-exportable, virtually inexhaustible and cheap to mine. Hence Victorian electricity prices could be lower than anywhere else in the world.

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### **Prospective capacity shortages**

According to the Australian Energy Market Operator (AEMO), Victoria will face electricity supply capacity shortages in the next few years. AEMO puts this at 249 MW in 2014/15, though with stronger growth the shortage might be earlier.

This looming shortage of electricity in the state is a result of private sector sources of finance being unable to risk lending to coal based power stations because of the possibility of a carbon tax or cap-and-trade. Wind offers little capacity certainty while gas developments are also risky unless guaranteed by the government.

### **Policy approach**

The failure to forge a global agreement at Cancun and the abandonment of a carbon tax by the US now makes it impossible to envisage a global agreement on reducing carbon emissions. Without such an agreement Australia can have no effect.

Given the global policy vacuum on carbon emissions, Victoria's government should invite a proposal for bids for a new power station in Victoria with the winning bid, subject to assurances that it is 'state-of-the-art,' being assured by the state government that it will be reimbursed for any future carbon tax. Until policy is better defined, the Victorian government should also suspend approvals of new intrusive renewable facilities that have not been financially committed.

The new government needs to respect the rights of the citizens of Victoria to gamble.

### **Poker machines**

In recent years, the most controversial mode of gaming has been poker machines.

Despite having operated without any strong opposition in New South Wales for forty years, the introduction of the machines in Victoria (a state more strongly influenced by temperance and other 'wowsers' values) in the early 1990s has generated ongoing criticism.

There have been constant demands by the anti-gaming lobby to reduce overall machine numbers despite, by having a cap of 27,500, Victoria only having a quarter of the number of machines as NSW. However, when figures were released earlier this year on spending on pokies per venue, Chairman of Inter-Church Gambling Taskforce Mark Zirnsak was forced to acknowledge that 'venues only increased their take per machine if the government reduced their number of machines.'

- The new government should resist any push to reduce the cap on poker machine numbers in Victoria and, in the longer term, raise the cap at least in line with population growth.

Another worrying aspect of the attack on the rights of pokies users is attempts by local government and community groups to use planning laws to bar pokies from their municipalities. In a liberal society, sections of the community should not have the right to deny others, even if they are a minority, the right to pursue their own interests.

- The Victorian government should vigorously defend the right of clubs and businesses to operate poker machines, and consumers to use them, without local communities having a power of veto.

As well as attacks on overall numbers of machines, there has been a concerted push to implement a range of restrictions on machines through lower bet limits, slower spin rates and pre-commitment. These have been given further impetus by the election of Independent Andrew Wilkie to the Federal Parliament with pokies restrictions one of his two major aims.

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As part of its agreement to gain Wilkie's support, the Commonwealth government has given the states until May next year to introduce mandatory pre-commitment limits on poker machines, or face the prospect of the commonwealth using taxation powers to impose its will on the states. The state government should vigorously resist this Commonwealth interference in an area of clear state responsibility.

### **Wagering, lotteries and casinos**

The internet allows people to gamble far more freely and thus artificial restrictions on what types of gaming are allowed and monopoly providers are becoming more and more anachronistic. Additionally, a number of Asian countries, such as Singapore, are rapidly expanding their gaming markets and will provide real competition for the gaming dollar in this region.

The tendering process for the wagering license post-2012 is already well-advanced so there will be limited scope for the incoming government to alter policy in this regard. However, whenever opportunities to re-tender wagering or lotteries licenses the government should move towards allowing greater diversity and competition in the Victorian gaming marketplace.

One issue that arose during the election campaign was the possibility of establishing a second casino in Victoria, specifically in Mildura.

- The Coalition should revisit its stated opposition to the specific Mildura proposal and indeed should make it clear that it would look favourably on other similar proposals to end the current casino monopoly.

### **Gaming regulation**

The regulation of gaming in Victoria has generally been well handled by the Victorian Commission for Gambling Regulation (VCGR) which has recognised that overly proscriptive regulatory regimes, such as apply in some US states, do not work.

Yet, the former Brumby Labor government announced earlier this year that the VCGR should be merged with Liquor Licensing Victoria, in a move seemingly designed to address the problems in liquor licensing. A combined body will undoubtedly focus strongly on liquor and thus potentially weaken its gambling expertise.

- The Victorian government should reverse this decision and keep VCGR and Liquor Licensing as separate bodies.

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## 7.0 HEALTH

*Julie Novak*

The performance of the public hospital system was a touchstone issue during the 2010 Victorian election campaign. That many Victorians routinely identify health care as a key issue is of little surprise, given the 1.4 million public acute hospital separations that occurred in 2008-09 and the expenditure by the state on public hospitals to the tune of \$3.6 billion (2007-08).

Victoria has often been lauded in health policy circles as possessing one of the more efficient public hospital systems of the states and territories.

The 'relative stay index' reveals whether an average patient's length of stay is higher or lower than would be expected, given the casemix of public hospitals. The latest available figures suggest that Victoria's public hospitals are the most efficient of all jurisdictions (with the exception of the ACT) at managing length of stay for the casemix than would normally be expected.

There is also evidence to suggest that the share of same-day public hospital separations to all separations in Victoria is substantially higher than the Australian average.

These relatively efficient outcomes are complemented by relatively low average costs of providing care for each admitted patient separation. In 2008-09 the recurrent cost per casemix-adjusted separation (excluding depreciation) in Victorian public hospitals was \$4,380, compared to the national average cost of \$4,471. Only South Australia was able to provide hospital services at lower cost.

A Productivity Commission study published in December 2009 had shown that selective measures of bed and labour productivity in public hospitals across Victoria had improved from 2002-03 to 2007-08.

A host of important policy reforms enacted since the 1990s have contributed to the maintenance of relative efficiency in Victoria's public hospital system. These include:

- the introduction of casemix funding, an implicit voucher funding model whereby hospitals are funded in accordance with the complexity of treatments provided to patients; and
- the maintenance of local hospital boards which decentralise decision-making to the individual public hospital (notably, NSW and Queensland abolished hospital boards during this period, with both now possessing arguably the worst hospital systems in the country).

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Despite this, there is also worrying indications that aspects of Victorian hospital operations and performance had been slipping under the previous Labor government.

Targets set by Labor for timely emergency department access were routinely missed, with more than 2,500 patients last year waiting on trolleys for a day or longer to be treated. Meanwhile, median waiting times for elective surgery in public hospitals had blown out over the past decade.

The tendency of state governments to ration public hospital service provision is, in part, a long term consequence of the taxpayer-financed Medicare health insurance system, which allows patients, regardless of income levels, to access public hospital services free at the point of entry. Even so, accessibility problems were so acute that the former Labor administration scandalously manipulated waiting list and time figures to give a public impression of an improved health system that in fact did not exist.

While information on safety and quality of hospital care are not comprehensive, the available data suggests that hospital acquired methicillin-resistant *Staphylococcus aureus* (MRSA) and vancomycin-resistant *enterococci* (VRE) infections are significantly higher in public hospitals compared to private hospitals.

Arguably, one of the more damning indictments on the health policy performance of the previous government is the persistently low number of public hospital beds per 1,000 population. In 2008-09 there were 2.3 beds per 1,000 people in Victoria compared to the national average of 2.5 beds per 1,000 population, a problem that has afflicted the state's hospital system for a number of years.

Data provided by the latest Productivity Commission Report on Government Services also suggests a period of increasingly lax cost controls within public hospitals, with the recurrent cost per patient encounter rising by 36 per cent since 2001-02.

These problems were highlighted to powerful political effect by the state Coalition while in opposition, and had proven themselves to be pivotal to the change of government in November 2010.

The key policy priority for the Victorian government should be to maintain, and improve, upon the state's existing strengths in health care, as well as focus energies on tackling specific problems that were left largely unchecked by the previous government.

Consistent with maintaining a tolerable level of public expenditure as well as efficiency of hospital services provision, the new government should assume a 'beds not bureaucrats' policy stance to help redress the shortage of hospital beds in the face of a growing state population.

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Encouragingly, the Coalition government announced during the election campaign a plan to deliver an additional 1,600 beds over an eight year period to help reduce waiting lists and improve patient care.

That said, it should be acknowledged that access to taxpayers' finances are not unlimited therefore it is not feasible to provide unlimited access to free health care in the public hospital system.

Initiatives should be introduced that facilitate the continuing growth of the private hospitals sector, to provide additional, cost-effective clinical care for patients without adding additional fiscal pressure on the state budget. Victorian private hospitals have enjoyed considerable growth in services provided over the past decade, and increasingly provide a significant array of complex treatments for patients.

Measures to increase the numbers of elective public patients being treated in private hospitals across Victoria, perhaps including through a competitive tendering process between hospitals to determine the best value for procedures to be performed, will be a necessary element of the policy task that lies ahead. In addition, a review of state regulations that restrict the development of new, and expansion of existing, private hospitals should be instigated.

There is an urgent need to dramatically enhance the transparency of public hospital performance for the information of patients and the general public alike.

Scandals such as the revelation of secret hospital waiting lists maintained by the former government have raised concerns about the accuracy of data published. It is suggested that Victorians should be able to access honest, real-time online information on the performance of their local public hospitals, including emergency department waiting times.

Opportunities should also be explored to make public the performance of individual surgeons and other prominent medical staff, where applicable.

The Gillard federal government is attempting to oblige the states to implement a national hospitals agreement that will give the Commonwealth majority funding responsibility, to be achieved by confiscating about 30 per cent of state untied GST revenue. This plan is a recipe for more blame-shifting between levels of government at the expense of additional services of Victorians who need them.

The previous government made Victoria a signatory to the health agreement immediately prior to entering caretaker mode, but with the agreement not legally binding on the state the new government has already announced that it will review the agreement to ensure that it is in Victoria's long term interests.

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The new Victorian government is best placed to improve our public hospitals, and not a distant Canberra bureaucracy with no service delivery experience and a lack of understanding of the priorities of local communities in Victoria.

With the state readily possessing the skills, capability and experience to tackle specific problems in Victorian public hospitals, together with a new state government equipped with an electoral mandate to implement change, it is unnecessary for Victoria to remain a signatory to a national health reform agreement that will further blur accountability of performance to state taxpayers and diminish the state's policy autonomy in this critical policy area.

### **Housing Land Cost Developments**

Traditionally families were able to buy the average priced home on three times median family incomes. Today in Melbourne it takes eight times the median family income (six times in Geelong) and relative to income levels Melbourne's house prices are among the dearest in the world.

And this is not because of quality differences. Houses are larger today but the house itself, in spite of regulatory requirements covering the building, is relatively cheaper. It is restrictions on development of land that houses stand on that has created the cost increase.

Policy in Victoria means new houses on the city edge cost at least \$70,000 more than they should. Many of these same policies operate directly to boost the prices of houses in area that are already developed and the price boost on the edge of a city in any event has a "knock-on" effect throughout its urban region.

The key cost imposed is regulation in the form of 'land rationing.' This starts with the creation of an Urban Growth Boundary, which limits the land that is available for development, and the shortage thereby created is exacerbated by additional planning and environmental controls. There is no shortage of land in Victoria. The urban footprint of the state is only 0.3 per cent, compared with 8 per cent in England.

### **Policy Proposals on Land Development**

- Abolish the Urban Growth Boundary and set time limits on state and local government agencies to require development to proceed
- Place strictly defined limits on the nature of environmental and heritage matters that can prevent or delay development
- Prevent regulatory authorities from specifying the nature of the development ('low income,' 'semi-rural' and so on); with an open policy on development, these matters can be left to the market to best provide.

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## **Housing Construction Cost Developments**

The land starvation policies of government are compounded by other measures that force up prices. Among these is the '5 Star' energy requirements on new houses, measures which the VCEC estimated had increased the costs of a new house by about \$6,000. Further cost-enhancing measures are in the pipeline, including requirements for ramps and other additions to new homes. All such measures should be removed.

## **Rural Land policies**

Rural policies increase costs of housing in two important ways. One is the Minimum 8/40Ha subdivision rules that are instrumental in the UGB restraint. These should be removed since they stop land owners from using their property as they see fit and bring a distortion in providing an incentive to use the land as hobby farms rather than commercial farming.

Secondly, the departmental directive to councils to use minimum projected sea level rise of 80cm should be removed, leaving the decision to the developer (and the associated insurance). This involves amending the *Coastal Management Act 1995* to stop the Victorian Coastal Strategy (VCS) from setting projected sea level rises. The current policy has clear and negative effects on the ability of property owners to maximise the value of their asset.

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## 9.0 LOCAL GOVERNMENT AND PLANNING

*Tim Wilson*

As the closest tier of government to those their decisions affect, local government is seeking recognition through its inclusion into the Commonwealth Constitution. But in terms of local government reform constitutional recognition should be a long way down the Victorian government's list of priorities.

Local government has enormous benefits because of its proximity to the citizens it serves. But local government suffers from structural flaws, poorly codified responsibilities and obligations and encroaching power that undermines its purpose.

### **Legislative and regulatory neutrality**

As part of a new policy agenda local governments should have their roles and responsibilities clearly prescribed by state government.

The state government gave birth to local governments as administrative sub-units. In many policy cases, such as planning, the state government has handed over immediate regulatory and enforcement powers while reserving broader powers and oversight.

But power-hungry local councillors and bureaucrats have sought to expand their authority in an attempt to legitimise local government solutions to local problems that are otherwise the responsibility of state or commonwealth governments.

Rather than having the current ambiguous relationship of what is, and what is not, the responsibility of local government, the state government should establish a clear codification of the powers and responsibilities of local government. Any codification should be based on the principle of legislative and regulatory neutrality.

Through legislative and regulatory neutrality the state government would codify powers to local governments at the expense of their use of their own powers. So, if state governments gave permission to local governments to decide street designs it would come at the expense of the state government's powers to do so. And if the state government had not codified responsibility to local government the power would remain with the state government.

By having legislative and regulatory neutrality there would not be unnecessary duplication in regulations and local government would be curtailed from indulging in frivolous gesture politics at the expense of ratepayers.

This delineation of roles and responsibilities of local government should also be implemented so as to not pave a way for excessive rate hikes, including in rural shires.

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### **Victoria looking ahead: Policy priorities for the Victorian government**

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## **Ending local government as a regulator and adjudicator**

In the context of reforming local government, the Victorian government should also reform the inappropriate capacity of local government to act as both the regulator and adjudicator of areas within its power, for example, planning.

Currently local planning laws are set by local government authorities and then interpreted and adjudicated by the same local government. In the event that a party does not achieve a ruling that they feel is desirable they are able to appeal to the Victorian Civil and Administrative Tribunal. Powers also reside with the Minister.

But having a regulator and adjudicator as the same body goes against the spirit and design of Australian democracy. State and Commonwealth parliaments set laws, but it is the job of state and federal courts to interpret and enforce them; whereas local governments set laws and then interpret and enforce them.

## **Planning reform**

A core area of local government responsibility is planning, and rightly so. Considering conflicts over planning relate to developments perceived to be in conflict with the character of the community it is appropriate that regulations are designed closest to those that they affect.

Currently broad planning regulations are established by the state government with limited powers afforded to local governments to narrow them based on what is within the character of their area.

However, increasingly burdensome planning regulations undermine property rights and limit property owners from using their property as they see fit. In fact these essentially transfer a property owner to merely an occupier, which is also their only real tradable property right as well.

Planning needs to be reformed to provide an alternative pathway for property owners to protect their property rights and it can be achieved through local government.

The state Parliament should amend the Victorian Constitution to include in it a provision equivalent to provisions in the Commonwealth Constitution that recognises the responsibility of the state government to compensate for undermining property rights through direction or regulatory acquisition. Similarly, such compensation should apply to local government decisions.

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Local governments should also be afforded the power to establish contracts for property owners to establish local planning regulations that cannot be overridden by local council or the state government.

Unlike state or local government planning regulations such contracts would be entered into voluntarily and give property owners choice about what minimum standards they would have imposed on their property.

For example, a block of property could sign a planning contract for their block establishing that no property within that block can be developed over two storeys high. Such a contract would then override state government planning laws as an agreement between the owners.

By having such a contract those property owners would be protecting the character of their area based on their own standards, as well setting a tighter planning standard than that required by government. The trade-off for those property owners would be that they would first need to establish a standard that all property owners could agree on, and the value of their land may decrease as it becomes less attractive for property development.

And if a contract cannot be secured by agreement of all parties those owners would then default to a potentially looser government standard.

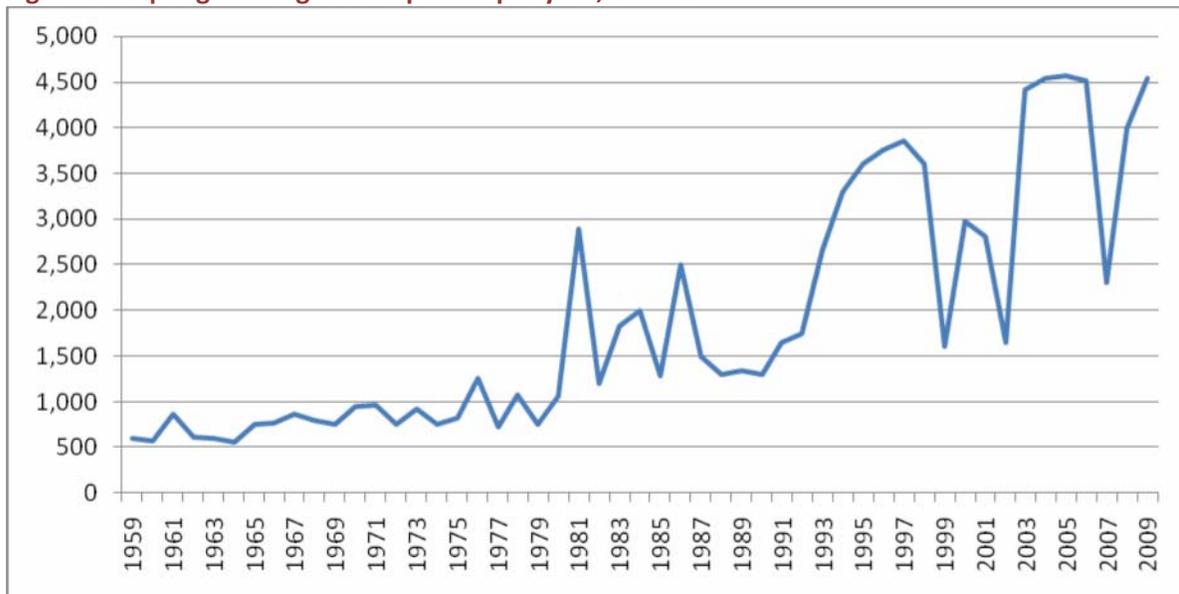
By establishing such a regime property owners would be given much greater ownership and control over their property and provide them with a pathway to voluntarily remove themselves from government-set planning regulations.

## 10.0 REGULATION

Chris Berg

Regulation imposes costs on individuals and businesses. While regulation is sometimes necessary, rigorous attention needs to be paid to the unintended consequences of regulation. Particularly considering the increasing number of pages of legislation passed by the Victorian parliament every year, ensuring new legislation and regulation is as minimally burdensome as possible is essential.

Figure 10.1 | Pages of legislation passed per year, 1959-2009



For a discussion of the usefulness and limitations of this measure, see Chris Berg, *Australia's Regulatory States: Ideology, Accountability, and the Mega-regulators*, Institute of Public Affairs, 2008.

**Source:** Institute of Public Affairs.

The new government needs to recognise that the complexity of legislation and regulation, and frequency it is enacted is, itself, a restraint on economic and social development.

As the new government develops its legislative agenda, it must be aware of the costly consequences of regulatory and legislative change. This awareness need not restrain worthwhile reform, but the government must approach reform with a view to minimizing the negative consequences of rapid and substantial change.

Victoria has Australia's most comprehensive regulatory review process of the Australian states. Central to this is the Victorian Competition and Efficiency Commission. The new government must recognise the critical importance of the VCEC as a regulatory watchdog and ensure it is adequately funded and its recommendations are supported.

### Victoria looking ahead: Policy priorities for the Victorian government

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- Regulatory Impact Statements and Business Impact Assessments are materially equivalent. Both should be set to identical standards.
  - BIAs should be released for public consumption as legislation is presented to parliament.
  - Exemptions can currently be granted to the RIS and BIA process. While justifications for exemptions are in rare cases conceivably justified, these should be extremely uncommon. In the case of pressing state interest for RIS or BIA exemptions, they should be only granted by the Premier, and accompanied by published documentation for those reasons.
  - The criteria for a BIA or RIS needs to be more prescriptive. Currently the criteria for a BIA – that legislation have potential “significant effects” on business or competition – excludes substantial pieces of legislation. One case has been the *Climate Change Bill 2010*, which, although it would have major consequences for business, was exempted from the process because those effects, while significant, would be indirect. Considering the importance and scope of legislation of this magnitude, such an exemption breaches the principles of good regulatory governance.
    - In circumstances where legislation or regulation is not accompanied by an RIS or BIA, the VCEC should have oversight to confirm that it is a legitimate and lawful exemption.
  - While the VCEC provides an independent assessment of RIS and BIA compliance, this is insufficient. The process by which RISs and BIAs are produced needs to be independent. There are a range of institutional mechanisms by which this could be achieved.
    - A separate, independent agency could be charged to develop impact statements in consultation with departments
    - Independent auditors determined or approved by VCEC could be seconded to departments as part of the impact statement processes.

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## 11.0 SCHOOL EDUCATION

*Julie Novak*

Despite the significant amounts of funding directed to publicly owned and managed government schools, it is estimated that 36 per cent of Victorian students are enrolled full-time in non-government schools. This figure is even higher for senior secondary schooling.

Despite the substantial sacrifices of many Victorian parents to enrol their students in Catholic and independent schools, the state government funding system is substantially weighted in favour of public schooling (\$10,395 for each public school student; \$1,329 for each non-government school student). Indeed, Victoria provides the lowest recurrent per capita funding entitlement to non-government schools in the country (Table 11.1).

**Table 11.1| State and territory recurrent funding per non-government school student, \$, 2007-08**

NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
2,081	1,329	2,061	2,190	1,478	1,828	1,665	2,972	1,840

Data for full-time equivalent students.

**Source:** Productivity Commission, Report on Government Services 2010.

This longstanding funding discrimination by school sector enrolment hampers parental choices for schooling. This lack of a level-playing field on funding is particularly acute for students with disabilities (SWDs). For example, the average dollar amount received by SWDs in Victoria's independent schools is less than the minimum level of funding received by similar students in public schools.

The current government made an election commitment to increase non-government school funding to 25 per cent of the recurrent cost of educating a student in a government school, investing an additional \$240 million over the next four years. This policy will go some way to redressing funding disparities between school sectors.

In addition, the Coalition has undertaken to review the existing non-government schools funding model. While this review will be important to help identify and iron out problems in the funding model for that sector, it appears that the funding bias towards government schools would be left untouched under the existing policy commitment.

To eliminate existing funding anomalies, a competitively-neutral recurrent funding scheme for all students should be strongly considered as an education policy priority by the new state government. One approach would be for all students to receive an equal per capita state funding entitlement, regardless of school sectoral enrolment, with students with special needs

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(e.g., students with disabilities) receiving top-up funding from the government to enrol in a school of their choice.<sup>3</sup> The public education lobby have long decried the revealed preferences of parents increasingly enrolling their children in Catholic and independent schools, at the expense of government schools.

The oft-quoted claim of selectivity in enrolment by non-government schools not only overlooks the increasing propensity of lower income families to send their children to low fee schools, but ignores the deliberate choices made by parents in response to issues such as patchy teacher quality, substandard curriculum and a lack of values-based education pervading the government school system.

Contrary to the views of the AEU and education scholars such as Jack Keating, the solution to the problems of government schooling is not to redirect funds from the growing non-government schools sector. The problems of public education must be tackled at their source - within government schools and the Education Department bureaucracy.

It is recognised in the international education literature that greater autonomy and flexibility are keys to ensuring that schools embrace educational excellence and respond in a tailored way to the needs of individual students and local communities. In simple terms, more flexible and innovative government schools should provide a basis to reduce the extent of the enrolment drift towards Catholic and independent schools.

While Victorian government schools are relatively decentralised compared to their peers in other states, there is a need to reinvigorate school self-management that was largely left to wither away by the former Labor government.

Following the 'independent government schools' approach now being adopted in Western Australia, the Victorian government should introduce greater curriculum and human resources management autonomy for individual government schools.

To maintain the integrity of curricula choice for Victorian schools, the state government should not proceed with the implementation of the Gillard government's national curriculum that has been widely criticised by educational experts for providing substandard guidelines for student learning.

To prevent the modern scourge of curriculum overcrowding, individual government schools should be encouraged to specialise in certain subject areas particularly for the senior years of

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<sup>3</sup> Given the significant involvement of the commonwealth in the funding of schooling, there is a case for the rationalisation of recurrent funding responsibilities between state and commonwealth governments. One proposal would be for the states to retain responsibility for per capita base funding entitlements, while the commonwealth provides top-up funding for students with special educational needs.

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schooling. This should be coupled with the removal of any zoning restrictions to allow parents to select a specialised government school of choice, regardless of residential location.

Finally the government should pursue as a top priority the measurement of teacher quality, identified by the Victorian Auditor General as an area of neglect by the previous government, and institute measures to systemically improve the quality of teaching. These include encouraging retired teachers and mature-age professionals in other fields to enter the teaching profession, and working with universities to ensure the highest standards of English, mathematics and science proficiency by prospective teaching graduates.

The new state government should take seriously the endemic structural problems of government schooling, given that failures in public education represent a substantial risk in terms of promoting quality human capital investment, not to mention the wastage of scarce taxpayer dollars.

During the period that the Bracks and Brumby governments were in office, transport policy, in particular the operation of the Melbourne metropolitan rail network dramatically grew in prominence as an issue. Indeed, some commentators have attributed the change of government solely to the loss of a string of seats straddling the poorly performing Frankston rail line.

### **Regional transport**

The Bracks government devoted much of its early attention to regional transport issues. It promised fast trains to a number of regional centres for the ludicrously low figure of \$80 million. By the following year, the now Labor government admitted the actual cost would be \$556 million, while the final cost ended up blowing out to more than \$750 million, and over \$1 billion when rolling stock is included.

While the increased demand for services has seen patronage growth, the performance of the V-Line Passenger business has often been disappointing, with many restrictive work practices still requiring reform.

The Regional Rail project is designed to improve the service delivery of both V-Line services and metropolitan services in the western suburbs – the new government must ensure this is delivered on time and on budget.

In the medium term, the government should attract international expertise into the supply of rail services to Victoria's regional commuters by re-franchising V-Line Passenger.

The other vital area for transport policy in regional Victoria is freight. This is covered in the Agriculture section of this paper.

Regional roads have also been neglected. There is currently a \$100 million maintenance backlog which the new government will need to address as a priority.

### **Metropolitan public transport**

The Bracks government inherited a vastly more efficient public transport service than the previous Labor government had left behind. The Kennett government had presided over increases in services and patronage while halving the cost to taxpayers and reducing the workforce. Late in its term, it locked these reforms in by contracting out the service delivery to

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private operators. It is crucial that the incoming Victorian government appreciates the importance of these reforms and that all of its own reforms build on this legacy.

In its early years, the Bracks government focused on regional areas, while in the metropolitan area the only developments were new rolling stock and system extensions which came on line had been initiated as part of the 1999 franchising. In the process, it ignored some of the vital transport needs that were developing in Melbourne.

Clearly, transport policy is vital to modern urban areas. Notwithstanding the IT revolution, the speed of moving people and goods around a city is an essential ingredient of its efficiency, cohesion and liveability. In the case of Melbourne, its growing population has placed extra strain on its transport networks.

The population growth and increased economic activity has seen deteriorations in travel times. The latest publicly available data suggests that in 2006 people spent 40 per cent more time travelling to and from work than 15 years earlier which has led to congested roads and a patronage boom on public transport. The increase in public transport patronage since private operators took over in August 1999 has been striking:

**Table 12.1 | Metropolitan Melbourne public transport patronage**

	<b>Metropolitan trains</b>	<b>Trams</b>
1998-1999	118.0 million	120.4 million
2009-2010	219.3 million	175.6 million
Percentage change (%)	85.8%	45.8%

**Source:** Victorian Department of Transport.

The privatised system undoubtedly provided better services and saw the end of the industrial chaos of much of the government-run era (although there remains scope for further progress in the area of work practices). However, the stresses placed on ageing infrastructure and inadequate rolling stock by the patronage boom as more patrons trying to access trains led to growing punctuality problems.

Thus, the first challenge of the new government is to make the trains run on time. **In the short term** they need to:

- Radically simplify the existing rail timetable to make gaps between trains more consistent, make stopping patterns more predictable and to dramatically improve reliability. This plan has been on the operator's agenda for some time, but the outgoing government had not got around to implementing it.
- Undertake a thorough audit of the metropolitan rail system to identify which pieces of infrastructure are currently the most responsible for delays and establish a plan to rectify these faults.

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The other issue that received significant prominence during the campaign was personal security. The IPA recommends that the new government:

- Reconsider whether the announced Coalition policy of two protective officers on every station is the best way to deploy resources, or whether alternatives, such as using them on board vehicles, may be a better option.

In the campaign, the Coalition also announced that it would be establishing an Independent Transport Authority. The new government should:

- Detail the structure and timing of the set up of the independent transport authority to clear-up uncertainty about how future decisions will be taken.

The government should also:

- Undertake a thorough audit of the Myki project, resolve any residual performance issues, settle any outstanding commercial issues at lowest cost to the taxpayer and map out a logical process to conclude a project which the former government botched, but which is now inevitable and can actually be turned into a plus for Victorians if it is well managed.

The **longer term** strategy of the Brumby government was detailed in its \$38 billion Victorian Transport Plan (VTP) released in 2008.

The new government needs to assess the existing plan (in particular big ticket projects such as the metro from Footscray to Caulfield), and its own longer-term promises made in the campaign (studies of rail to Doncaster, the airport etc.), to determine what its own priorities will be. In all cases, proposed rail solutions need to be carefully costed against alternative approaches involving increased road capacity. Costings also need to be addressed:

- In particular, there is an urgent need to investigate whether there is scope for projects such as Mill Park extension and Regional Rail to be delivered at a cheaper cost per kilometre than is currently predicted.

It also needs to be recognised that in recent years the Victorian government has been particularly successful in securing commonwealth funding for projects in Victoria. As well as being of the same political hue, it also needs to be recognised that the fact that the VTP was based on the Eddington Report clearly means that Infrastructure Australia (chaired by Sir Rod Eddington) appreciated the underpinnings of the plan.

Buses are an important road-based part of the transport network, but have suffered in the past from having rigid and completely uncommercial fixed routes. The outgoing government invested in the orbital bus concept originally initiated by the Kennett government. In the medium term, the government needs to ensure that when existing bus contracts expire that they take the opportunity to allow competition in the sector and that further contracts are awarded on the basis of competitive tendering.

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Another longer term issue the government should address is pricing and whether pricing policy can better match demand to available supply of capacity both on-board public transport vehicles (an opportunity greatly enhanced by Myki) and in terms of road space.

### **Taxis**

The fundamental problem currently crippling the taxi industry is entrenched monopoly interests, exemplified by high license fees.

This ultimately needs to be replaced by a system of as-of-right licensing, subject to suitability checks and a modest administrative fee. This would not only benefit consumers, but would be of huge help to drivers, particularly those seeking to become owners. They would no longer need to take out a huge loan to fund a plate and thus many more drivers would have a chance to be self-employed.

The government will need to develop a reform model which provides some compensation to existing plate holders, without imposing too great a burden on taxpayers.

In the shorter term, the government should issue further taxi licenses for specific time periods only.

### **Metropolitan roads**

Melbourne's road network's mode share of all trips remains close to 90 per cent and with population increases and economic growth the aggregate number of trips increases annually, even as patronage on public transport increases.

It is important that the road network is upgraded to cope with this increased demand.

Many important road projects, vital elements of Melbourne's future road network, were given longer term priority in the VTP. These urgently need to be re-assessed and re-prioritised as appropriate. Key examples are the north-east link to link Eastlink with the Metropolitan Ring Road; and the east-west link between the Eastern Freeway at Clifton Hill and the Tullamarine Freeway and the western suburbs, and to provide an alternative to the Westgate Bridge.

Longer term, a key project will be the outer western ring road through the outer western growth area.