



National Motor Vehicle
Theft Reduction
Council

Reform of the Scrap Metal Laws in Western Australia

Regulatory Impact Statement

April 2020

PREPARED BY:
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Informing Australia
on vehicle crime.

Report outline

Date	April 2020
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Title	Reform of the Scrap Metal Laws in Western Australia - Regulatory Impact Statement
Address	National Motor Vehicle Theft Reduction Council Suite 1, 50-52 Howard Street North Melbourne Victoria 3051
Email	info@carsafe.com.au
Type of report	Regulatory Impact Statement on proposed reforms to Scrap Metal Laws in Western Australia
Objectives	The objective of the report is to identify and assess the impacts of alternative reforms to scrap metal laws in Western Australia to inform and progress discussion on possible reforms.
TRC program	Reducing profit-motivated theft
Key milestones	Project Commenced 4 November 2019 Draft report 18 March 2020 Final report 9 April 2020
Abstract	<p>It is proposed that regulation of the scrap metal industry in Western Australia may reduce metal theft. The objectives of the reform are to more effectively regulate the scrap metal industry to assist the Police in addressing related property crime.</p> <p>The reform options considered quantitatively in the RIS are:</p> <ul style="list-style-type: none">· Option 0 - Base case (no change)· Option 1 - Amend the <i>Pawnbrokers and Second-Hand Dealers Act, 1994 (WA)</i>· Option 2 - New legislative powers - based on the NSW Scrap Metal Industry Act 2016 <p>The analysis found that Option 2 delivers a larger benefit than Option 1 under all the possible scenarios. This is because Option 2 is anticipated to have lower costs to industry and to government.</p> <p>As Option 2 delivers a net benefit under most scenarios, it is the preferred option. It is recommended further research should be undertaken (possibly as part of the Consultation RIS process) to refine the market size and benefit estimates.</p>
Purpose	The purpose of the report is to identify and assess the impacts of alternative reforms to scrap metal laws in Western Australia to inform and progress discussion on possible reforms.
Key words	Regulatory Impact Statement, Scrap Metal, Western Australia Law Reform, RIS Pawnbrokers, Second-hand Dealers, Motor Vehicle Theft.

Executive summary and recommendations

Introduction

Theft of metal assets and parts for resale as scrap metal is an ongoing issue in both Western Australia and in other Australian and international jurisdictions. In recent years a number of other jurisdictions (United Kingdom, Victoria and New South Wales) have increased the controls on trading in scrap metal to reduce levels of metal theft.

It has been proposed that regulation of the scrap metal industry in Western Australia may reduce the attractiveness of any stolen scrap metal as there is greater control and governance over the origin of the material. As it was identified the reforms considered may have a significant impact on industry, a Regulatory Impact Statement (RIS) is likely to be required.

Objectives

The proposed objectives of the reform are to:

1. increase regulation for the scrap metal industry – this regulation addresses issues such as:
 - a) reducing anonymity for metal thieves (through transaction records)
 - b) reducing the ease with which stolen metals can re-enter the mainstream market and disrupt the market for stolen goods
 - c) improve safety (both of workers and thieves) as metal theft, particularly earthing cables, often leaves unnoticeable live wires.
2. assist the Police in addressing property crime, including the theft and disposal of stolen vehicles and vehicle parts, copper and other metal.

Options

In addition to the base case, two reform options are considered quantitatively in the RIS:

- Option 0 – Base case
- Option 1 – Amend the *Western Australian Pawnbrokers and Second-Hand Dealers Act 1994*
- Option 2 - New legislative powers - based on the *NSW Scrap Metal Industry Act 2016*

Analysis of the options

A RIS is required to assess each viable option in order to determine a preferred reform option. As the options are assessed against the base case (no reform), it is possible “no reform” is the preferred option. In assessing each option, the RIS is required to consider the costs and benefits of each in order to determine the option that delivers the largest benefit to the Western Australian community and also to identify the Regulatory Burden which would be imposed by each reform option. The analysis considered the reform options under a range of scenarios due to uncertainty on both:

- the scale of the industry in Western Australia and the number of businesses that would be defined as scrap metal dealers; and
- the exact value of scrap metal theft in Western Australia

In the cost benefit analysis, we have assumed that either reform option would reduce the cost of metal theft by 75%. This is based on data from the United Kingdom that indicates a sustained reduction of this level. While two Australian jurisdictions (New South Wales and Victoria) have introduced reforms, there is insufficient data to estimate the reduction in theft that has resulted from these reforms.

It is also noted that WA Police have indicated they believe that Option 2 would be more effective in reducing metal theft than Option 1. However, in the cost benefit analysis we have assumed the same level of reduction in theft (75% - based on the data from the United Kingdom) for both options. As set out below, this simplifying assumption does not alter the conclusion or recommendation.

Given the range of possible scenarios, we have provided a summary of which options result in a net benefit under each of the input scenarios – as shown in Table 1.

Table 1: Summary of which reform option delivers a net benefit under each input scenario

	Minimum benefit estimate	25% benefit estimate	50% benefit estimate	75% benefit estimate	Maximum benefit estimate
Small Market size	Both options	Both options	Both options	Both options	Both options
Large Market size	Neither option	Option 2	Option 2	Both options	Both options

From the analysis, Option 2 delivers a larger benefit than Option 1 under all the possible scenarios. This occurs because Option 2 is anticipated to have lower costs to industry and to government – but results in the same benefit as Option 1.

Recommendations

As Option 2 delivers a net benefit under nine of the ten scenarios set out in Table 1, it is considered the preferred option based on the cost benefit analysis. It is recommended further research should be undertaken (possibly as part of the Consultation RIS process) to refine the market size and benefit estimates.

Acknowledgements

The National Motor Vehicle Theft Reduction Council would like to acknowledge the contributions made by members of the Expert Reference Group in providing input and guidance on this analysis and report. The members of this group are:

- National Motor Vehicle Theft Reduction Council;
- Western Australian Police Force;
- Department of Transport, Western Australia;
- Motor Trades Association of Western Australia;
- Sims Metal Management;
- JTW Autoparts; and
- Braven Group.

Information was also provided by Western Australian utilities, particularly Western Power and the Water Corporation and business association Kwinana Industries Council.

In addition to the time contributed to the Expert Reference Group, the Western Australian Police Force assisted greatly in estimating the government and industry time requirements and costs under each of the reform options. This input was led by Mark Ridley and Marcus Murray.

Finally, the analysis and report were developed by Marsden Jacob Associates and the project was led by Alex Marsden and Philippa Short.

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1. Introduction

Theft of metal assets and parts for the resale as scrap metal is an ongoing issue in both Western Australia and in other Australian and international jurisdictions. The high value of some metals (such as copper at \$6 per kilogram) and the low level of regulation for scrap metal in Western Australia results in metal theft as a ready source of cash for thieves that is not easily traced. Key industry sectors currently impacted by metal theft include electricity, water and telecommunication utilities, building sites and older motor vehicles which are stolen and sold for scrap.

In recent years a number of other jurisdictions (United Kingdom, Victoria and New South Wales) have increased the controls on trading in scrap metal to reduce levels of metal theft. It has been proposed that regulation of the scrap metal industry in Western Australia may reduce the attractiveness of any stolen scrap metal as there is greater control and governance over the origin of the material. This should lead to reduced theft and financial loss to industry and the broader community.

The National Motor Vehicle Theft Reduction Council (NMVTRC) is a national body seeking to reduce motor theft across Australia. One of the NMVTRC's initiatives is to promote the reform of scrap metal markets as a means of reducing motor vehicle theft. As it was identified the reforms considered may have a significant impact on industry, a Regulatory Impact Statement (RIS) is likely to be required.¹ The NMVTRC commissioned Marsden Jacob Associates to develop this short RIS to consider and assesses the options for regulation.

In undertaking this analysis, the NMVTRC formed an Expert Reference Group to ensure input is provided by a range of stakeholders including Government, the scrap metal industry and industries impacted by metal theft.

This report aligns with the Western Australian Treasury guidance for RISs² and so has the following structure:

- Executive summary and recommendations
- Statement of the issue
- Objectives of Reform
- Identification of reform options
- Summary of consultation undertaken
- Assessment of reform options

The aim of this RIS is to promote discussion within the Government and industry on the regulation of scrap metal trade and to focus reform discussions on the most effective and efficient outcomes. It is noted further analysis and consultation would be required, prior to undertaking legislative reforms.

¹ The WA guidelines indicate that a RIS is required if a significant impact on industry is identified. <https://www.wa.gov.au/sites/default/files/2020-01/regulatory-impact-assessment-guidelines-western-australia.pdf>

² <https://www.wa.gov.au/government/document-collections/better-regulation-unit-fact-sheets>

2. Statement of the problem

Scrap metal merchants form an integral part of the metal recycling industry by purchasing scrap metal from members of the public or industries and providing these products to metal producing industries within Australia and, increasingly overseas, with a clear majority of scrap metal being exported to industrialised countries such as China.

The collection, trade and reuse of scrap metal is an important and publicly beneficial industry reducing metal costs, energy use and carbon emissions. Scrap metal dealers provide an essential function in the sequence of activities from collecting to processing for reuse.

The scrap metal market in Western Australia is largely unregulated. There is no requirement for information on the origin of the metal to be sought by the buyer (the scrap metal dealer) and as scrap metal is a largely homogenous product, this lack of information means tracing its origin is difficult. Additionally, it is a product which can be sold quickly as the disposal of any products to a scrap metal dealer is very easy.

Profit motivated theft of motor vehicles and scrap metals, such as copper from building sites and utilities, has been an ongoing problem for WA Police³. Scrap metal (including motor vehicle parts) is not covered under the *Pawnbrokers and Second-Hand Dealers Act 1994* as it is not defined as a 'second-hand good' – and thus is not subject to any regulation.

The characteristics of the scrap metal market, combined with the ability to sell scrap metal for cash, means disposing of stolen scrap metal is relatively easy, but tracking down stolen metal and those responsible is difficult. This imposes a cost, not just on the original owner of the metal, but on the Western Australian community as a whole.

The direct cost of any theft of scrap metal is the replacement cost of the metal (for example copper cable, aluminium windows or other metal product). However, the total cost (imposed on the community as a whole) includes costs such as:

- labour costs to replace the stolen metal;
- costs of service interruption (system outages);
- environmental clean-up costs (for example machinery is damaged in the theft and oil and other chemicals contaminate the surrounding environment); and
- safety costs (for example damaged wires may cause danger to the general public if the theft is not spotted quickly).

From an economic perspective, the costs imposed on the broader community from the theft of scrap metal and its sale arise from failures in the market. These include:

- Information inconsistencies – there is no incentive for the scrap metal dealer (buyer) to know the origin of the scrap metal (and therefore exclude any stolen metal); and
- Ease and speed of disposal of any scrap metal

As the structure of the scrap metal market means theft is not adequately deterred – the result is an inefficient outcome from the community's perspective.

It is noted that regulation of the scrap metal industry was considered in 2010, but the reform did not progress. Consideration of the issue 10 years later indicates that inefficiencies and costs to society resulting from problems surrounding the scrap metal industry are not short term issues.

³ Personal communication – WA Police (2020)

3. Objectives of the reform

The objectives of the proposed reforms were discussed and agreed by the Expert Reference Group (ERG) that provided guidance on the preparation of the RIS. When considering possible reforms to the scrap metal trade, it was noted the Western Australian Criminal Code⁴ already includes various offences for theft and receiving stolen goods.

Rather than developing new criminal provisions for the theft, purchase or sale of scrap metal, the proposed objectives of the reform are to:

1. Increase regulation for the scrap metal industry – this regulation addresses issues such as:
 - a) Reducing anonymity for metal thieves (through transaction records);
 - b) Reducing the ease with which stolen metals can re-enter the mainstream market and disrupt the market for stolen goods; and
 - c) Improve safety (both of workers and thieves) as metal theft, particularly earthing cables, often leaves unnoticeable live wires.
2. Assist the Police in addressing property crime, including the theft and disposal of stolen vehicles and vehicle parts, copper and other metal.

⁴ https://www.legislation.wa.gov.au/legislation/statutes.nsf/main_mrtitle_218_homepage.html

4. Identification of reform options

The Regulatory Impact Assessment guidelines⁵ require RISs to identify and consider both regulatory and non-regulatory options in considering possible reforms to overcome the identified issue.

4.1 Reform options used in other jurisdictions

As noted in the introduction, the United Kingdom, New South Wales and Victoria have all introduced regulatory reforms within the last decade. In 2013 the United Kingdom enacted the *Scrap Metal Dealers Act 2013* with the stated purpose:

*'to reverse the upward trend in levels of metal theft through stricter regulation of the metal recycling sector to make it more difficult to dispose of stolen metal'*⁶

The reform introduced new primary legislation (a new Act of Parliament) which required scrap metal dealers to hold and display a licence, scrap metal transactions to be recorded and provided police with right of entry powers.

New South Wales introduced similar primary legislation, the *Scrap Metal Industry Act, 2016* which requires registration of scrap metal dealers. The NSW legislation has mirrored some of the UK requirements including information on the transactions (the record keeping requirements) and making it an offence for dealers to purchase scrap for cash.

In Victoria, amendments were made in 2018 to the *Second-hand Dealers and Pawnbrokers Act, 1989*. These reforms included Scrap metal under the existing system for second-hand dealers.

4.2 Options identified

Based on the reforms used in other jurisdictions for the regulation of scrap metal as well as non-regulatory options used in other industries, the Expert Reference Group identified the following options for the regulation of scrap metal in Western Australia:

Option 0 – No legislative change.

Option 1 – Amendments within the *Pawnbrokers and Second-Hand Dealers Act 1994* and its associated regulations so 'scrap metal' is included in the definition of a 'second-hand good'.

Option 2 - New legislative powers (either as a completely new Act or new stand-alone section inserted into the *Pawnbrokers & Second-Hand Dealers Act*).

Further discussion on each of these options is set out below.

4.2.1 Option 0 – No legislative change

It was noted two sub-options existed within Option 0.

Firstly, Option 0a was identified as *No legislative change and no substantive change in industry behaviour*. This option provides the "Base case" against which other options can be considered.

A second option which didn't require legislative change Option 0b was identified as *Industry Self-Regulation*. This option would also not require legislative change and instead would rely on the scrap metal industry to alter its practices voluntarily to ensure thorough record keeping and remove cash transactions.

4.2.2 Option 1 – include scrap metal within the Pawnbrokers and Second-Hand Dealers Act

Currently regulations of the *Pawnbrokers and Second-Hand Dealers Act* specifically exclude both:

- Scrap metal (other than gold and silver); and
- Motor vehicles, ... and their parts including tyres (but not accessories such as audio equipment, roof racks or lights ...)

The amendment or removal of these regulations would include the trade of these goods within the existing provisions of the *Pawnbrokers and Second-Hand Dealers Act*. This could occur without amending primary legislation.

⁵ <http://www.wa.gov.au/sites/default/files/2020-01/regulatory-impact-assessment-guidelines-western-australia.pdf>

⁶ Home Office, *Review of the Scrap Metal Dealers Act 2013*, Cm9552, December 2017, p.1.

4.2.3 Option 2 - New legislative powers

As noted above, the new legislative powers could either be a completely new Act (similar to New South Wales) or could be included as a stand-alone section added to the *Pawnbrokers and Second-Hand Dealers Act*.

This option would require an Act of Parliament to either establish or amend primary legislation, but would allow the provisions to be specifically targeted to deal with scrap metal and second-hand vehicle parts.

4.3 Options considered in detail

While industry self-regulation (Option 0b) was identified as a possible option, the Expert Reference Group noted this reform was unlikely to be effective in achieving the reform objectives. In particular it was noted the scrap metal industry included a large number of part-time dealers and that a “loose” industry structure of this type did not suit self-regulation. It was also noted that there isn’t evidence of self-regulation being used for scrap metal in other jurisdictions.

As self-regulation was considered to be unlikely to achieve the reform objectives, this option is not considered in detail in the remainder of the RIS.

Further detail on the options considered quantitatively is set out in Appendix A.

5. Overview of the scrap metal industry and estimation of the cost of metal theft

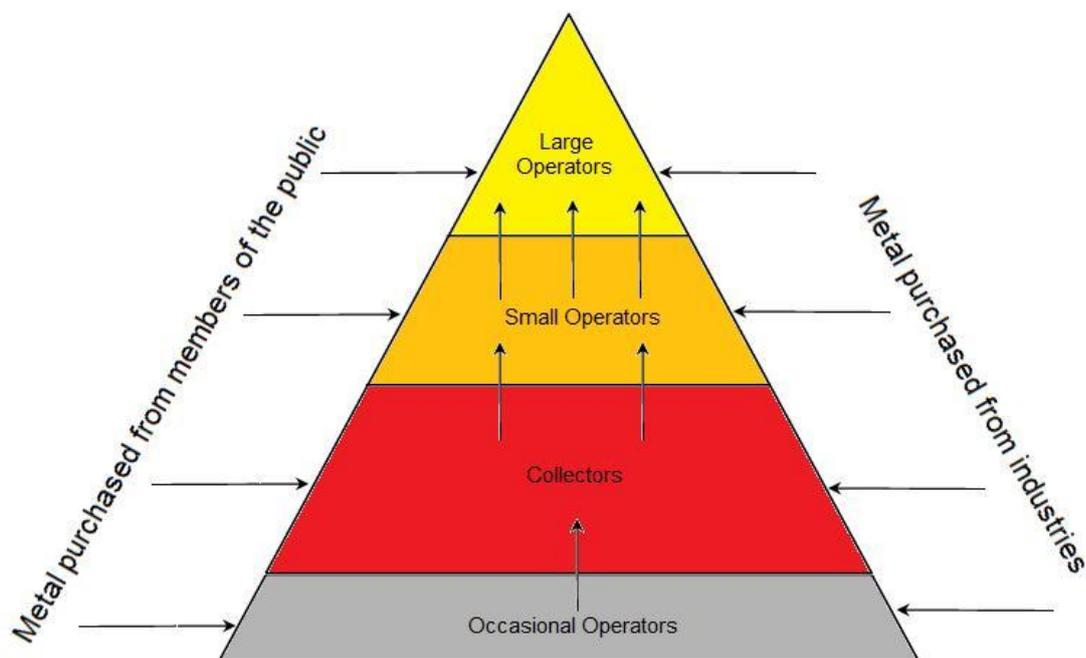
5.1 Overview of the scrap metal industry

As the scrap metal industry is not regulated in Western Australia, there is no definitive data on the number of scrap metal dealers or the number, quantity or weight of scrap metal that transacts through the industry each year.

Scrap metal industry experts have previously described the industry structure as being a “Food chain” and have referred to the major industry segments as “Hunter Gatherers, Small Dealers and Processors”.

As the industry has low barriers to entry, it encourages a large number of small, part time and occasional industry participants, as well as larger industry players who focus predominantly or wholly on scrap metal trade. At the top of the “food chain” there are a small number of industry players who collate the input from smaller collectors and either process or export the material (Figure 1).

Figure 1: Notional industry structure for scrap metal dealers



Source: Marsden Jacob Analysis, 2020

Industry estimates of numbers of scrap metal dealers vary from between 105 to 200 businesses – depending on whether building demolition and motor vehicle wreckers would be included in the definition.⁷

The WA Police estimate (depending on the definition used), the following number of businesses may be included in the definition:⁸

- 114-125 metal dealers
- 100 car wreckers
- 15 demolition companies
- 50-60 Waste companies

⁷ Estimates provided by Sims Metals

⁸ Mark Ridley, Pers. Communication January 2020

5.2 Approach to estimating the cost of metal theft

Estimating the cost of metal theft in Western Australia raises three difficulties:

- There is no single source of data on metal theft
- Metal theft is not always reported to the WA police
- The total cost of metal theft is greater than the value of goods stolen

5.2.1 There is no single source of data on metal theft

There is no single source of data on metal theft in Western Australia. This is due in part to the different industries affected by metal theft, and the reporting structure tending to record the type of metal stolen.

The industries which have been identified as being significantly affected by metal theft are:

- Utilities – such as Western Power, Water Corporation and telecommunication firms; and
- Building industry – construction sites (residential and commercial) and older homes with external copper piping.

Additionally, stolen cars which are not recovered (classed as profit-motivated theft) make up another form (and another record) of metal theft.

Statistics on car theft for both Western Australia and other Australian jurisdictions is obtained and published by the NMVTRC annually. This provides the most comprehensive data source for profit-motivated thefts.

5.2.2 Metal theft is not always reported to the WA police

The extent of metal theft in Western Australia is also difficult to ascertain, due in part to a lack of reporting of figures by Government Agencies, utilities and industries affected – both to WA Police and internally.

It has been estimated (by WA Police) that utilities will only report about a third of all scrap metal theft.⁹

Braven Group however found approximately 73% of builders it surveyed reported theft to police.¹⁰ The main reason given for reporting a theft was 'for insurance purposes' while those indicating a lack of police report stated they 'see no value in reporting'.

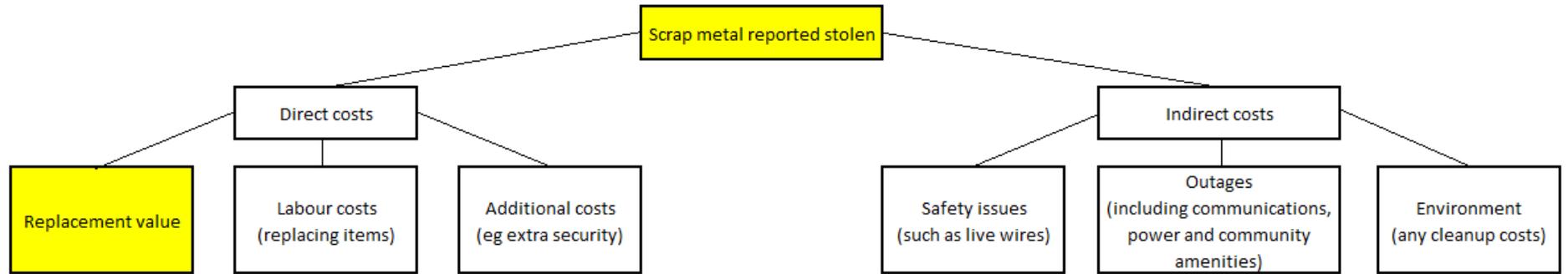
5.2.3 The total cost of metal theft is greater than the value of goods stolen

It is difficult to calculate the cost of scrap metal theft to the Western Australian economy. A direct cost of metal theft is the replacement cost of the motor vehicle or scrap metal (for example copper cable or aluminium windows). However, there are other cost types which should be considered, when identifying the full cost of metal theft to the Western Australian community as a whole – as illustrated in Figure 2.

⁹ Personal communication – WA Police (2020)

¹⁰ Unpublished building survey carried out by Braven Group.

Figure 2: Total cost of metal theft



Source. Marsden Jacob, 2020

Direct costs

The top yellow box – scrap metal reported stolen – represents the figure which will be reported to WA Police – that is – the value of the scrap metal stolen in terms of the product's replacement cost. Therefore, the reported/replacement value are often the only costs reported by a business.

There are other direct costs which are imposed on the business or utility from which the metal was taken. The first is the installation cost to replace the item and return the site or service to 'normal' – generally the cost of labour required. There may also be additional costs imposed on the business, particularly if a number of thefts occur. These costs generally revolve around security – for example in the form of additional personnel or more fences or cameras. This imposes further costs upon a business.

For example, Water Corporation reported approximately 2,900 water meters had been stolen from residential properties over the last year at a cost of approximately \$110,000. However, this cost is based only on the replacement value of \$38 per meter. It does not include the labour costs and time to replace each meter, nor any damage that may have occurred either to the pipes or property.

Indirect costs

There are also indirect costs which are imposed, both on the affected business and the community in general. These include:

- Health and safety concerns;
- Service outages; and
- Environmental costs.

Health and safety

Health and safety issues arise in a number of instances. Obvious examples are where cabling has been removed and live wires are left, often with no indication of anything wrong. These pose a risk not just to the person removing the cables, but also workers (who approach with no indication of any cables removed) or members of the general public who happen to walk into the wrong spot. Another example is where signals are compromised by theft of particular parts, resulting in signal failure – which may not be apparent until an accident has occurred (for example a railway crossing).

Service Outages

Outages will cause a disruption to businesses (loss of productivity) and have an adverse effect on customers (delays in service). The type of outage will depend on the location and use of the scrap metal removed. However, all outages impose a cost to business and the community in general. Obvious examples include telecommunications outages (when internet and telephone lines are damaged) and power outages if electricity wires are damaged.

The general community is affected if sporting fields or playgrounds are damaged (for example the removal of cabling from light towers affects sporting teams training and games if grounds are unusable).

Environment

Removing cabling and metal thefts may damage the surrounding equipment, leading to environmental contamination of the area and the business or utility having to pay for clean-up. For example, Western Power has been involved in cleaning up contaminated land after people damaged a transformer – causing it to leak oil onto the surrounding area.

The economic consequences for scrap metal theft can therefore be quite large. For example, a damaged transformer will cost Western Power in a number of ways, including:

- Replacing metal components stolen (costs of both replacing the component and the installation costs)
- Repairing equipment damaged during the theft
- Repairing any systems damaged as a result of wiring stolen
- Cleaning up any environmental damage caused during the theft (for example oil leaking onto the ground)
- Reimbursing customers if needed – when a service is not provided for a length of time.

5.3 Evidence from Western Australia

5.3.1 Copper and other metals

In spite of a lack of data on costs, there are indications the incidence of metal theft, specifically copper, is rising

According to WA Police¹¹ the most commonly reported types of copper theft are:

- Copper earthing wire (generally from Western Power property);
- Communication cabling (Telstra);
- Older homes – both privately and State-owned;
- Reels of cabling and copper from scrap metal bins in (usually secure) industrial yards;
- Cabling from electrical boxes and reels of cabling from Water Corporation property (such as treatment plants, depots and pump stations); and
- Electric cabling and copper piping from construction sites.

It has been estimated the companies most affected by metal theft are the State-owned agencies, Western Power, the Housing Authority, and Water Corporation, as well as the privately-owned Telstra and BGC Residential.

The Local Government Insurance Scheme (LGIS) states there has been an increase in the theft of copper pipes and cables with thefts targeting local government assets and government utilities. LGIS estimates 32 claims with payments of over \$1,000,000, have been lodged in the past 18 months¹² – and that this is probably an underreporting due to the different ways claims can be lodged. From the figures provided it suggests the average claim is approximately \$31,000. However, the cost is not just in monetary terms of replacing an item, but also in disruption to the community (e.g. events being cancelled or re-scheduled) and safety issues involved (as live wires are often left behind).

Examples reported in the media include:

- In October 2017 copper cabling was stolen from a Telstra pit in Gosnells impacting 4000 customers with phone and internet service outages
- In May 2019 Floodlights installed at a Clarkson oval were damaged when the copper cabling was removed – causing disruption to sporting events and training sessions. – and had an estimated repair bill of approximately \$10,000.
- In November 2019 copper cable wires worth approximately \$45,000 were stolen from Wembley Sports Park, at the same time as copper cabling was stolen from McGillivray Oval at the UWA Sports Park.

It has been found in other countries the rate of scrap metal theft corresponds with the price movements of copper – as copper is the most commonly stolen scrap metal (it was estimated in the United States copper forms 97% of all reported scrap metal thefts).¹³

5.3.2 Motor vehicles

It has been stated the demand for vehicles for metal recycling, as well as the export of whole and partial vehicles continues to grow – causing legitimate businesses increasing difficulty in competing with rogue operators, for whom there is no desire to comply with established industry practices or codes of conduct.¹⁴

Stolen motor vehicles may be broken up into parts and disposed of through scrap metal dealers – referred to as ‘profit motivated theft’. The breaking up into parts often renders the vehicle unidentifiable and there is currently no regulation to ensure the unique identifier on any vehicle broken up is recorded.

Figures on car theft provided by the NMVTRC are defined as ‘profit motivated theft’ and ‘short term theft’. Profit motivated numbers are based on vehicles not recovered (as at 31 July that year) while short term theft is the number of vehicles recovered. It is those vehicles which are not recovered, and in particular, older vehicles more than 10 years old, which are assumed to have been stolen for scrap metal purposes.

¹¹ WA Police (pers comm)

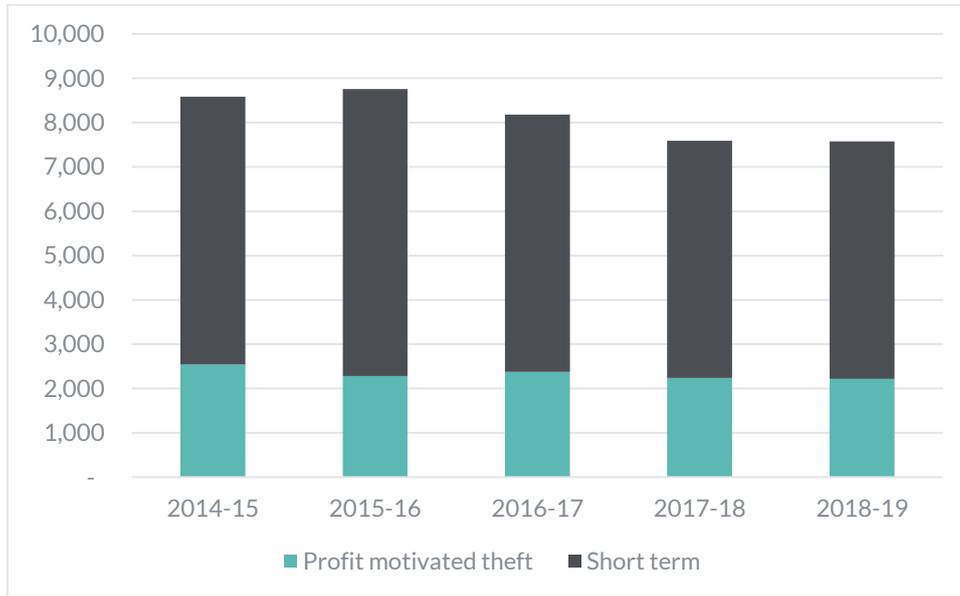
¹² <https://www.lgiswa.com.au/newsfeed/news/detail/27?selectedDate=Latest%20News&pageNo=2&subject=Select> (accessed 2 December 2019)

¹³ <https://www.isri.org/docs/default-source/scrap-metals-theft/sheriff-magazine-feature-article-september-2014.pdf?sfvrsn=2&sfvrsn=2> p.12. (accessed 3 March 2020)

¹⁴ Personal communication – WA Police (2020)

In Western Australia, the number of profit motivated thefts has been fairly consistent and smaller than short-term theft (Figure 3).

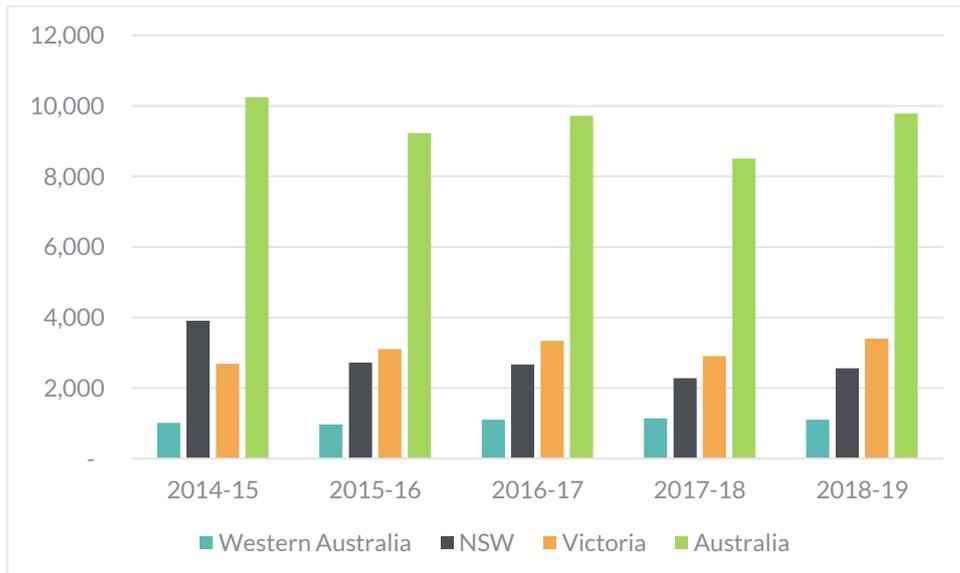
Figure 3: Patterns of car theft (light and heavy vehicles) in Western Australia



Source. Marsden Jacob analysis of NMVTRC figures, 2020

Profit motivated theft of light vehicles has been fairly consistent in Western Australia in the last five years (Figure 4). In 2018/19, there were 0.78 profit motivated thefts per 1,000 registrations in Australia, however Western Australia’s rate was higher than the average – at 0.96 thefts per 1,000 registrations.¹⁵ Additionally, Western Australia also had the highest theft rate per population (0.85 thefts per 1,000 persons) compared with the national average of 0.62 thefts per 1,000 persons.¹⁶

Figure 4: Profit-motivated theft of light vehicles



Source. Marsden Jacob analysis of NMVTRC figures, 2020

¹⁵ NMVTRC, CARS Statistical Report 2018/19. September 2019. p.43.

¹⁶ Ibid. p.43.

5.4 Data on metal theft in other jurisdictions

5.4.1 United Kingdom

In 2013 the United Kingdom enacted the *Scrap Metal Dealers Act 2013* with the stated purpose of reversing ‘the upward trend in levels of metal theft through stricter regulation of the metal recycling sector to make it more difficult to dispose of stolen metal’.¹⁷ The NSW legislation has mirrored some of the UK requirements including information on the transactions (the record keeping requirements) and making it an offence for dealers to purchase scrap for cash.

The legislation was reviewed in 2017. Table 2 shows the metal theft offences recorded by the police in England and Wales between the years ending March 2013 to March 2017.

Table 2: Metal offences recorded in England and Wales

	Number of offences				
	2012-13	2013-14	2014-15	2015-16	2016-17
Metal theft	62,997	42,230	27,362	16,639	12,970

Source. *Review of Scrap Metal Dealers Act 2013*¹⁸

These numbers indicate the year ending March 2017 had seen a 79 percent reduction in theft offences since the implementation of the Act. Respondents to the review commented there had been a reduction in global metal prices over this period and so metal may not have been as attractive to thieves (leading to a natural reduction in theft offences). However, the same period had seen only an approximate reduction of 18 per cent in the Metals Commodity Price Index.¹⁹

Additionally, there was an increase of about 26 percent in the Commodity Metals Price Index over the 2016-17 period (March to March), and this same period still saw a 22 per cent reduction in metal theft offences²⁰.

The view of respondents to the review was the *Scrap Metal Act 2013* ‘had improved regulation of the scrap metal industry and, by doing so, had helped to achieve reductions in the level of metal theft’.²¹ The view was the Act should be retained and some amendments considered.

¹⁷ Home Office, *Review of the Scrap Metal Dealers Act 2013*, Cm9552, December 2017, p.1.

¹⁸ *Ibid*, p.3

¹⁹ <https://www.indexmundi.com/commodities/?commodity=metals-price-index&months=120> (accessed 10 February 2020)

²⁰ <https://www.indexmundi.com/commodities/?commodity=metals-price-index&months=60> (accessed 10 February 2020)

²¹ Home Office, 2017, p.10.

6. Consultation undertaken

6.1 Expert Reference Group

This preliminary impact assessment (a 'light' RIS) is a comparison of the costs and benefits of the proposed options in relation to the 'base case' – where the present situation (no regulation) continues. It has been carried out in consultation with an Expert Reference Group (ERG) – established by the NMVTRC in May 2019.

The members of this group are:

- National Motor Vehicle Theft Reduction Council;
- WA Police Force;
- Department of Transport, WA;
- Motor Trades Association of WA;
- Sims Metal Management;
- JTW Autoparts; and
- Braven Group.

The ERG was established as a means of consulting with affected parties – and has representatives from Government and industry. However, should government decide to proceed with either reform option identified, it is anticipated a full RIS would be required to be carried out before a new Act or section could be implemented, or even minor changes to the Act made.

This RIS would require formal consultation with industry and industry groups beyond those included in the ERG. There will be small companies for whom any increase in regulation will impact heavily on their profitability and these businesses will need an opportunity to respond.

6.2 Other parties

Further consultation was carried out for this preliminary RIS, particularly in relation to obtaining qualitative and quantitative information in relation to costs and benefits.

WA Police, through the State Operations Division, Police Licensing Services and the Licensing Enforcement Division, provided information in relation to estimated licensing and compliance costs, as well as input into the numbers of reported thefts, and estimates of underreporting.

Information was provided by a group of Western Australian utilities, including Western Power and Water Corporation via WA Police (with whom they work closely).

In 2019, Braven Group carried out a survey on scrap metal theft. There were 40 respondents from a range of construction and general industry, who answered a number of questions around cost of metal theft to businesses and the procedures around reporting (or not) those thefts. This survey was used to develop an understanding of direct and indirect costs of metal theft to construction and general industry.

7. Assessment of the reform options

7.1 Introduction

A RIS is required to assess each viable option in order to determine a preferred reform option. As the options are assessed against the base case (no reform), it is possible that “no reform” is the preferred option. In assessing the options, the RIS is required to consider the costs and benefits of each, in order to determine the option which delivers the largest benefit to the Western Australian community and also to identify the Regulatory Burden being imposed.

7.2 Cost benefit approach and methodology

The approach used to estimate the costs and benefits of each option was to:

1. Develop a detailed description of the reform options
2. Identify the types of costs to government and industry arising from each reform option
3. Estimate the value of the costs to government and industry arising from each reform option
4. Estimate the value of the benefits arising from reduced metal theft under each option.
5. Compare the present value of the costs and benefits over a ten year period, applying a discount rate.

Each of these steps are considered in turn in the remainder of this section.

7.3 Cost benefit estimation

7.3.1 Develop a detailed description of the reform options

A detailed description of the reform options is set out in *Appendix A: Detailed description of the options*. Based on the detailed description the legislative requirements of each option are set out in Table 3, on the following page.

Table 3: Summary of the reform options assessed

	Option 0 - Base case (continuation of current regime)	Option 1 Amend the Pawnbrokers and Second-Hand Dealers Act	Option 2 New legislative powers - based on the NSW Scrap Metal Industry Act
Registration of dealers and premises	N/A	Dealer must be licensed with the police. Natural persons only to be licensed. Each license applies to one premises (and one storage location) – if more than one premises need more than one licence.	A scrap metal business needs to be licensed. A publicly available register of scrap metal businesses is kept on the police website (and regularly updated).
Licence requirements	N/A	Licence applied for depends on: <ul style="list-style-type: none"> - Time required (1 – 3 years) - Transactions processed per year 	Licence granted for three years.
Dealer obligations	N/A	Seller must be over 18 years. Seller must provide identification as outlined in the regulations. Seller must not appear drug or alcohol affected.	No payment by cash/cash cheque or in-kind payments. No buying and disposing of unidentified motor vehicles. Report any suspected stolen goods. Prohibit the disposal of suspected stolen scrap metal.
Transaction records	N/A	Detailed records for each contract as outlined in the Act. A receipt must be given to both parties (seller and buyer).	Records for each contract – although slightly less detailed than those in Option 1 (see more detail in the process flow)
Record keeping	N/A	All receipts and records must be kept for seven years. Individual goods labelled with the distinguishing number (given in the contract above).	Records must be kept for three years.
Handling of goods	N/A	All goods must be kept for 14 days with no modifications. Can only be kept at licensed premises	
Enforcement	N/A	Licensing officer may take an allegation to the State Appeals Tribunal (SAT) SAT makes decision on the licence.	Commissioner may order an interim closure. Local Court will decide on a long-term closure. No business can occur on the premise if a closure order is in force.

7.3.2 Identify the types of costs to government and industry arising from each reform option

Each of the legislative requirements set out in Table 3 would impose costs on both industry and government.

These costs can include establishment costs (such as system development), initial costs (such as transitional licensing, and industry education), as well as ongoing costs that would occur from the second year onwards (Table 4).

Table 4: Summary of costs and benefits of reforming the scrap metal industry

Stakeholder/ Option	Upfront costs	Ongoing costs
<i>Option 1</i> Government	<ul style="list-style-type: none"> Initial costs in further developing the police licensing system to integrate a new licence Initial costs to auditing and compliance – increase in the number of businesses to audit as the new regime is implemented Educating the industry of the new requirements 	<ul style="list-style-type: none"> Larger licensing, audit and compliance section to deal with increased business numbers
<i>Option 2</i> Government	<ul style="list-style-type: none"> Initial costs in further developing the police licensing system to integrate a new licence Initial costs to auditing and compliance – increase in the number of businesses to audit as the new regime is implemented Educating the industry of the new requirements 	<ul style="list-style-type: none"> Larger licensing, audit and compliance section to deal with increased business numbers No requirement for management of transaction records
<i>Option 1</i> Scrap metal industry	<ul style="list-style-type: none"> Costs of transitioning to the new system – including the payment of fees and including software and computer requirements are met 	<ul style="list-style-type: none"> Licence requirements for dealers Maintaining transaction records End of day compliance Inspections and audits by WA Police Increased storage costs
<i>Option 2</i> Scrap metal industry	<ul style="list-style-type: none"> Costs of transitioning to the new system – including the payment of fees and including software and computer requirements are met 	<ul style="list-style-type: none"> Business licence required (every three years) Maintaining transaction records Inspections and audits by WA Police

7.4 Estimate the value of the costs to government and industry arising from each reform option

7.4.1 Industry costs

Industry costs of compliance were assessed through information obtained by discussions with Sims Metal and previous discussions with Cash Converters.

As the industry is currently unregulated, costs and timing assumptions were based on discussions around compliance timings for current second-hand goods and estimates which could be extrapolated (Table 5).

Table 5: Industry costs associated with regulation of the scrap metal industry

Industry costs	Option 1	Option 2
Licence application (establishment) ¹	5.5 hours of manager's time for all scrap metal dealers	
Licence application (ongoing) ¹	5.5 hours of manager's time for one third of all scrap metal dealers	
Recording transactions	10 minutes of retail assistant's time per transaction	5 minutes of retail assistant's time per transaction
Uploading transactions & tagging goods	5 minutes of retail assistant's time per transaction	N/A
Inspections ¹	40 hours of manager's time per inspection	
Storage costs	22,687 m ² is the total area required for holding goods	N/A

Source. Marsden Jacob, 2020

Note.

1. The timings and costs identified for both Option 1 and Option 2 are the same.

Differences in the costs to industry between Option 1 and Option 2 occur as a result differences in the way scrap metal transactions are proposed to be recorded, as well as the holding of goods for a minimum of 14 days.

Under both options, the scrap metal industry will be required to collect and maintain records on the purchase of scrap metal, although the level of detail is different (Table 6).

Table 6: Information requirements for transaction records under the reform options

Option 1	Option 2
Distinguishing record number	Date of transaction
Full name and address of seller	If sold by an individual - name, residential address, date of birth - all obtained from photo ID
Form of identification used and any relevant document number	If sold by corporation - name, business address and ABN, as well as statement from or authorised by an executive officer
Date and time	Description of the scrap metal including its quantity and weight (or both)
Description of each of the goods including type, size, colour, brand, serial number and distinguishing features	Unique identifier of the motor vehicle
Consideration provided (payment)	Method of payment
Dealer or representative's name	
Where goods are stored	
Date of disposal (if disposed of)	

There major difference between the two options is the requirements for Option 2 are less onerous in terms of the description of the good. Under the *Pawnbrokers and Second-hand Dealers Act 1994* each good must be recorded and described – taken at face value this would require individual pieces of scrap metal having a unique record. Thus, a batch of scrap metal containing 10 pieces would be 10 transaction records.

Under Option 2, one batch of scrap metal would make up one transaction – regardless of the amount or number of pieces of metal contained in that batch.

Uploading of transactions is only a cost under Option 1 – as scrap metal dealers are required to provide the transaction information to the Commissioner (WA Police) within 24 hours from the end of day.

Storage costs will only be imposed upon the industry under Option 1 – where dealers must store the scrap metal (unchanged from when it was purchased) for a period of 14 days. This will require a larger storage area – as metal cannot be compressed or reduced in size and will be kept on the premises for longer.

Using the time estimates above, and based on salary information from ABS data (and confirmed with Sims Metal), the estimated total costs to industry to comply with the proposed reforms are presented in Table 7. Note these values are using the 'high' market size input (200 scrap metal businesses) in the model and are less when considering a smaller market (120 businesses).

Table 7: Total ongoing cost to industry

Process	Option 1	Option 2
Licence application	\$23,412	\$23,412
Recording transactions	\$7,232,208	\$3,616,104
Uploading transactions and tagging goods	\$3,616,104	N/A
Inspections	\$357,568	\$357,568
Storage costs	\$2,268,668	N/A
Total	\$13,497,961	\$3,997,084

Source. Marsden Jacob, 2020

7.4.2 Government costs

Through discussions with the relevant branches within WA Police, Marsden Jacob were able to obtain estimates of staffing levels required for each Government cost faced as a result of regulation under each option.

The reform options were identified as having costs associated with the following activities identified in Table 8.

Based on the options specified, staff for each of the relevant areas were asked to estimate the staff resources and additional costs which would be incurred under each option – separating establishment costs and on-going costs.

We identify some costs will arise in the year as the program is established, and these will be different from those costs which arise once any reforms are fully implemented.

Table 8: Government costs associated with regulation of the scrap metal industry

Government costs	Option 1	Option 2
Licensing system costs (establishment) ¹	Operational costs of \$100,000 to integrate IT systems (SPA) Staffing levels: 0.24 FTEs – Cashier (Level 2) 0.28 FTEs – Administration (Level 2) 0.32 FTEs – Licensing officer (Level 4) 0.04 FTEs – Officer in charge (Level 6) 0.12 FTEs – SPA administrative support (Level 4)	
Licensing costs (ongoing) ¹	0.07 FTEs – Cashier (Level 2) 0.08 FTEs – Administration (Level 2) 0.09 FTEs – Licensing officer (Level 4) 0.01 FTEs – Officer in charge (Level 6) 0.10 FTEs – SPA administrative support (Level 4)	
Transactions (establishment)	Operational costs of: \$500,000 for IT system development (TAG)	N/A

	\$20,000 for process development, development of relevant forms and publishing	
Transactions (ongoing)	Staffing levels: 0.1 FTEs – Web maintenance (Level 2) 0.2 FTEs – Administration (Level 3)	Staffing levels: 0.1 FTEs – Web maintenance (Level 2)
Audit & Enforcement (establishment) ¹	Operational costs of \$45,000 to fund six trips to regional centres Staffing levels: 3 FTEs – Administration (Level 2) 24 FTEs – Senior Constable 3 FTEs - Sergeant	
Audit & Enforcement (ongoing) ¹	Operational costs of \$30,000 to fund six trips to regional centres Staffing levels: 2 FTEs – Administration (Level 2) 16 FTEs – Senior Constable 2 FTEs - Sergeant	
Industry education (establishment) ¹	Operational costs of \$50,000 for publishing and distributing information to the industry and customers 1 FTEs – Analyst (Level 3) 1 FTEs – Project manager (Level 5) 2 FTEs – Constable 1 FTEs – Training officer (Senior constable) 0.01 FTEs – Inspector for sign-off	

Source. Marsden Jacob, 2020

Note.

1. The timings and costs identified for both Option 1 and Option 2 are the same.

Differences in the costs to Government between Option 1 and Option 2 occur as a result differences in the way scrap metal transactions are proposed to be maintained.

Under Option 1, scrap metal dealers would be required to supply WA Police with a copy of daily transactions of scrap metal within 24 hours.

It was noted second-hand dealers can currently provide their daily transaction records by computer or facsimile. However, any dealer with a computer supported by any Windows more recent than Windows 7 cannot access the system and thus must fax in daily transactions.

A new system (TAG) is being developed to overcome this issue. The model has been developed on the premise that transaction records will be provided from dealers only by computer – and the facsimile option will be removed. However further work would need to be undertaken to ensure scrap metal transactions would be recorded within the system (in a way that can be easily audited).

Operating on the same system as the second-hand dealers, every piece of scrap metal would count as one ‘transaction’ and so each of these records would need to be sent to the TAG system.

Additionally, there would be some level of form and process development prior to the legislative change, to ensure the dealers and WA Police are capturing all required information (the original operation costs).

Under Option 2, there will be no requirement for scrap metal dealers to submit transaction records to WA Police – thus removing the cost of establishing and maintaining records (although the dealers themselves must keep the records for three years and produce as required during a police audit).

WA Police will be required to maintain a publicly available record of all licensed scrap metal dealers on its website – so this will need to be reviewed intermittently throughout the year. As such – the cost to WA Police is minimal.

Using the time estimates above, and staffing costs based on the current salaries in WA Police (including both “on-costs” (such as superannuation) and “overheads” (such as office space, and corporate support costs)²² the estimated costs to government are presented in Table 9. Note these values are using the ‘high’ market size input in the model, and will be less when considering the ‘low’ market size.

Table 9: Total cost to Government

Process	Option 1			Option 2		
	Establishment	Year 1	Ongoing	Establishment	Year 1	Ongoing
Licensing	\$100,000	\$102,006	\$35,967	\$100,000	\$102,006	\$35,967
Transactions	\$520,000	\$29,746	\$29,746		\$9,077	\$9,077
Audit and enforcement		\$4,494,835	\$2,996,556		\$4,494,835	\$2,996,556
Industry education	\$369,570			\$369,570		
Total	\$989,570	\$4,626,587	\$3,062,270	\$469,570	\$4,605,917	\$3,041,600

Source. Marsden Jacob, 2020

²²

The inputs and assumptions (as well as their sources) are set out in detail in the model. These can be adjusted if the inputs change.

7.5 Estimate the benefits that would arise from reduced metal theft under each option

7.5.1 Estimated current value of metal theft

Based on the data set out in section 5, Marsden Jacob used two methods to estimate the value of metal theft. The two approaches used were:

- Extrapolation of police data, and
- Collation of data from utilities and the Braven group.

The inputs used and the source of the estimates are set out in Table 10 and Table 11, below.

Table 10: Estimation of the total cost of metal theft based on police data

Input	Value	Source
Estimated total reported metal thefts per year	2,106	WA Police data on reported thefts (1,053 over the period of January to June 2019)
Assumed reporting rate	70%	Based on range of reporting rates 10% (water meters) to 70% (Braven group survey data)
Estimated total numbers of metal theft per year	3,009	Calculated value based on inputs above (3,009 = 2,106 ÷ 0.7)
Estimated direct value per metal theft	\$1,009	Average of estimates based on water Corporation and Western Power data. Also aligns with Braven group survey data
Estimated total direct value per year	\$3,291,894	Calculated value based on inputs above
Estimated total indirect value per year	\$3,291,894	Estimated value based on Braven group survey data

Source. Marsden Jacob, 2020

From Table 10, it can be seen the total direct costs are estimated to be around \$3.3 million per year and the indirect costs would be a similar value. This gives a total value of \$6.6 million per year, without considering the profit motivated theft of motor vehicles for scrap value.

From Table 11, it can be seen the total value direct cost of metal theft is estimated to be \$15 million per year excluding light motor vehicles, with indirect costs estimated to be around \$14 million per year. It should be noted this estimate is conservative when compared to the survey data, but more extensive industry data would be required to refine the estimate for both construction and general industry.

Table 11: Estimation of the total cost of metal theft based on utility and Braven group data

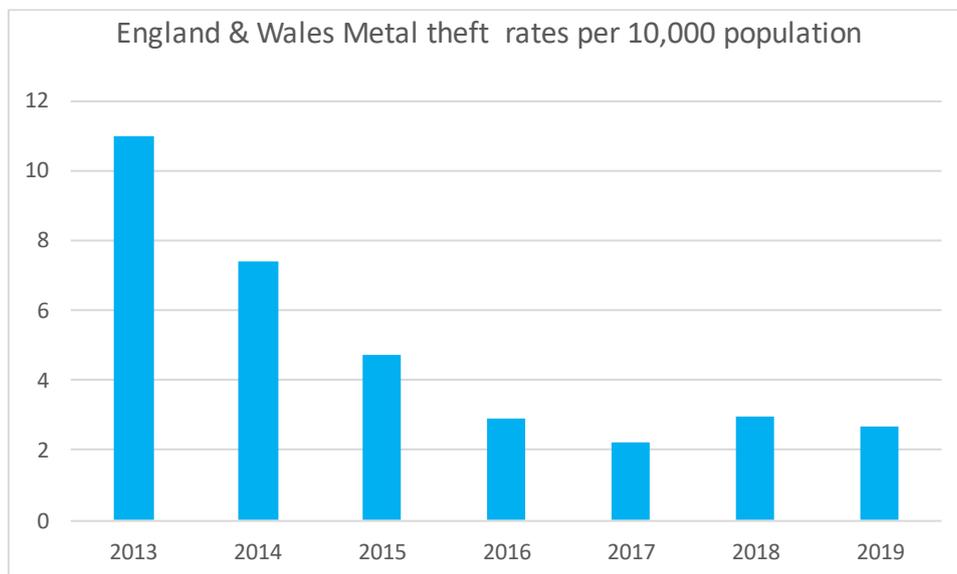
Industry	Direct costs/year	Indirect costs/year	Source
Construction - Residential	\$3,905,000	\$5,857,500	Braven survey
Construction - Commercial	\$5,218,000	\$2,609,000	Braven survey
General Industry	\$1,930,500	\$3,861,000	Braven survey
Power	\$1,000,000	\$1,000,000	Western Power (Indirect costs based on ratios above)
Water	\$546,045	\$546,045	Water corporation (Indirect costs based on ratios above)
Local Government Authorities	\$500,000	\$500,000	LGIS data (Indirect costs based on ratios above)
Light Motor Vehicles	\$11,342,250		NMVTRC Data
Total (excluding Motor Vehicles)	\$15,030,045	\$14,373,545	
Total (including "non light" Motor Vehicles)	\$26,372,295	\$14,373,545	

Source. Marsden Jacob, 2020

7.5.2 Estimated reduction in metal theft

Based on UK data on the reduction in metal theft – as shown in Figure 5, it appears reasonable to assume the introduction and enforcement of scrap metal laws would result in a 75% reduction in crime.

Figure 5: Graph of Metal theft rates for England and Wales from 2013 – 2019 inclusive



Source: Property crime table 20: Metal theft offences recorded by the police in England and Wales, rates per 10,000 population, by police force area, year ending March 2013 to year ending March 2019

<https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/datasets/focusonpropertycrimeappendixables>

In the cost benefit analysis, we have assumed that either reform option would reduce the cost of metal theft by 75%. This is based on data from the United Kingdom that indicates a sustained reduction of this level. While two Australian jurisdictions (New South Wales and Victoria) have introduced reforms, there is insufficient data to estimate the reduction in theft that has resulted from these reforms.

It is also noted that WA Police have indicated they believe that Option 2 would be more effective in reducing metal theft than Option 1. However, in the cost benefit analysis we have assumed the same level of reduction in theft (75% - based on the data from the United Kingdom) for both options. Using the full range of values for the estimate of metal theft and the estimated 75% reduction in metal theft, the range of benefits varies from \$4.97 Million to \$30.7 million per year – as set out in Table 12.

Table 12: Summary of benefit estimates

		Current value	Estimated value after reform	Estimated benefit
Estimate of crime based on extrapolating police data	Excluding Motor vehicles	\$6,583,789	\$1,616,540	\$4,967,248
	Including Motor vehicles	\$17,926,039	\$4,401,442	\$13,524,597
Estimate of crime based on utility and Braven group data	Excluding Motor vehicles	\$29,403,591	\$7,219,565	\$22,184,026
	Including Motor vehicles	\$40,745,841	\$10,004,467	\$30,741,374

7.6 Compare the present value of the costs and benefits over a ten year period, applying a discount rate

As there are both high and low estimates of the costs and of the benefits for both Option 1 and Option 2 a range of results are able to be presented for the cost benefit analysis.

An example discounted cashflow for the low market size and minimum benefits scenario is shown in Table 13, on the following page. The table clearly shows the different timing of costs and benefits – with Government costs arising in year 0 (ahead of commencement) and increased costs in year 1 (implementation). It can be seen the industry costs are higher in year 1 (implementation) and are then assumed to be constant.

In contrast, the benefits are assumed to be smaller (50% of their final value) in year 1 and then are constant from year 2 onwards.

Table 13: Discounted cash flow showing the timing of costs and benefits under the Low market size and minimum benefits scenario

Option 1

	Year										
	0	1	2	3	4	5	6	7	8	9	10
Industry costs	\$0	\$1,621,942	\$1,592,677	\$1,592,677	\$1,592,677	\$1,592,677	\$1,592,677	\$1,592,677	\$1,592,677	\$1,592,677	\$1,592,677
Government costs	\$989,570	\$2,967,249	\$1,968,733	\$1,968,733	\$1,968,733	\$1,968,733	\$1,968,733	\$1,968,733	\$1,968,733	\$1,968,733	\$1,968,733
Benefits		\$2,483,624	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248
Net benefit	-\$989,570	-\$2,105,567	\$1,405,839	\$1,405,839	\$1,405,839	\$1,405,839	\$1,405,839	\$1,405,839	\$1,405,839	\$1,405,839	\$1,405,839

Option 2

	Year										
	0	1	2	3	4	5	6	7	8	9	10
Industry costs	\$0	\$642,004	\$612,739	\$612,739	\$612,739	\$612,739	\$612,739	\$612,739	\$612,739	\$612,739	\$612,739
Government costs	\$469,570	\$2,946,580	\$1,948,063	\$1,948,063	\$1,948,063	\$1,948,063	\$1,948,063	\$1,948,063	\$1,948,063	\$1,948,063	\$1,948,063
Benefits		\$2,483,624	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248	\$4,967,248
Net benefit	-\$469,570	-\$1,104,960	\$2,406,446	\$2,406,446	\$2,406,446	\$2,406,446	\$2,406,446	\$2,406,446	\$2,406,446	\$2,406,446	\$2,406,446

Source: Marsden Jacob, 2020

7.6.1 Results for the smaller estimate of the market

Under the smaller estimate of the market size (120 scrap metal businesses) both Option 1 and Option 2 deliver a net benefit under all the estimates of benefits. The Net Present Value and the Benefit Cost Ratio for both Option 1 and Option 2 are set out in Table 14.

The Net present value results indicate if scrap metal dealers are defined tightly under the proposed reforms (giving the smaller market for licensing) then the Western Australian community would achieve a total benefit of at least \$5.6 million – spread over the first 10 years of implementation. The Benefit cost ratio indicates that for every dollar invested, the community would gain a return of at least \$1.21 – but this return could be as high as \$10.40.

Table 14: Net Present Value and the Benefit Cost Ratio under the smaller estimate of the market size

	Minimum benefit estimate	50% benefit estimate	Maximum benefit estimate
Option 1 Net Present Value	\$5,603,000	\$90,094,000	\$174,585,000
Option 2 Net Present Value	\$13,192,000	\$97,683,000	\$182,174,000
Option 1 Benefit Cost Ratio	1.21	4.34	7.47
Option 2 Benefit Cost Ratio	1.68	6.04	10.4

Source. Marsden Jacob, 2020

Note: Analysis is based on 7% discount rate over 10 years.

7.6.2 Results for the larger estimate of the market

Under the larger estimate of the market size (200 scrap metal businesses) neither Option 1 nor Option 2 deliver a net benefit under the minimum benefit estimate (Table 15). Only Option 2 delivers a net benefit under the 50% benefit estimate and both Option 1 and Option 2 deliver a net benefit under the maximum benefit estimate.

Table 15: Net Present Value and the Benefit Cost Ratio under the larger estimate of the market size

	Minimum benefit estimate	50% benefit estimate	Maximum benefit estimate
Option 1 Net Present Value	-\$86,240,000	-\$1,749,000	\$82,742,000
Option 2 Net Present Value	-\$18,779,000	\$65,712,000	\$150,203,000
Option 1 Benefit Cost Ratio	0.27	0.99	1.7
Option 2 Benefit Cost Ratio	1.68	2.28	3.93

Source. Marsden Jacob, 2020

Note: Analysis is based on 7% discount rate over 10 years.

7.6.3 Summary of results

Given the range of possible scenarios, we have provided a summary of which option result in a net benefit under each of the input scenarios – as shown in Table 16.

Table 16: Summary of which options deliver a net benefit under each input scenario

	Minimum benefit estimate	25% benefit estimate	50% benefit estimate	75% benefit estimate	Maximum benefit estimate
Small Market size	Both options	Both options	Both options	Both options	Both options
Large Market size	Neither option	Option 2	Option 2	Both options	Both options

From Table 16, it can be seen Option 2 is anticipated to deliver a net benefit under more scenarios than Option 1. It can also be seen from Table 14 and Table 15 that Option 2 delivers a larger benefit under all the possible scenarios. This occurs because Option 2 is anticipated to have lower costs to industry and to government – but results in the same benefit as Option 1.

As Option 2 delivers a net benefit under nine of the ten scenarios set out in Table 16 it is considered the preferred option based on the cost benefit analysis. It is noted further research could be undertaken (possibly as part of the Consultation RIS process) to refine the market size and benefit estimates.

7.7 Regulatory Burden Measurement

The Western Australian Better Regulation Unit requires the consideration of regulatory burden on businesses, community organisations or individuals as part of the RIS.

In addition to providing a cost benefit analysis, the Western Australian Better Regulation Unit requires the RIS to consider the impact on industry from complying with the changes in requirements that would occur under the reform options.

The assessment of changes in industry costs is often referred to as ‘regulatory burden measurement’ and focuses only on changes in private-sector costs. Furthermore, regulatory burden does not include costs of actions the industry would take anyway, which are referred to as ‘business as usual’ costs.

Regulatory burden measurement uses some of the same data collected for the CBA but categorises and presents the data in a different manner.

Regulatory burden measurement requires consideration of administrative compliance costs, substantive compliance costs and delay costs. To avoid the double counting of costs on business that are then passed onto consumers, the cost benefit analysis assumes most costs are paid by consumers. The results are shown as a simple average of the increase in costs over the first 10 years and are shown in Table 17 for a large market scenario. It is noted these costs would be lower for the small market scenario.

Table 17: Average annual regulatory costs as increases from business as usual (\$ million) – Large market scenario

	Business	Community organisations	Individuals	Total change in costs
Reform Option 1	\$13.50	\$0	\$0	\$13.50
Reform Option 2	\$3.99	\$0	\$0	\$3.99

Appendix A: Detailed description of the options

As set out in section 4 the options that are considered quantitatively are:

- Option 0 – Base case
- Option 1 – Amend the Pawnbrokers and Second-Hand Dealers Act
- Option 2 - New legislative powers - based on the NSW Scrap Metal Industry Act

Each of these options are described in further detail below.

Option 0 – Base case

Option 0a is referred to as the ‘base case’. This is where there is no change to legislation or policy. It is a continuation of the status quo and is seen as ‘business as usual’. It forms the base case for comparison to changes occurring under any reform.

Option 1 – Amend the Pawnbrokers and Second-Hand Dealers Act

Option 1 proposes minor changes to the current *Pawnbrokers and Second-Hand Dealers Act 1994* (and the associated regulations). This would change the definition of a ‘second-hand good’ to include scrap metal. In doing so, the requirements for buying, recording and selling currently imposed on second-hand dealers would apply to scrap metal dealers. These restrictions would include:

- Licensing requirements and eligibility criteria, and licensing fees imposed on scrap metal dealers
- Extensive transactional record keeping (including verification of the seller) required
- Records of every item received
- Specific requirements on storing and disposal of goods
- Police access and inspection
- Penalties for non-compliance

Key impacts of the Act

The restrictions which would be expected to impact scrap metal dealers the most arise from particular sections of the *Pawnbrokers and Second-Hand Dealers Act 1994*. The relevant sections are discussed in Table 18.

Table 18: Relevant sections of the Pawnbrokers and Second-Hand Dealers Act 1994

Section	Title	Description and associated requirements	Likely Objective
<i>Registration of dealers and premises</i>			
7	Scrap metal dealers to be licensed	Need to obtain a dealer licence (and undergoing checks to determine suitability – including a ‘good character’ check).	Clearly delineates the market and enables disciplining of fringe operators. Allows the exclusion of known criminals.
8A	Premises in respect of which licences apply	Unless otherwise stated a licence only applies to one location where the business is operated (storage facilities can be included).	Creates a “closed system” for the location of stolen products strengthening enforceability.
<i>Dealer obligations</i>			
38	Persons under 18 or affected by alcohol or drugs	Prohibits obtaining goods from people under 18 years old or apparently affected by alcohol or any drug.	Prevents acquisition of goods from higher risk members of the public.
39	Identification of persons	Persons selling goods must be positively identified using a 100 point identification check set out in Regulation 13.	Removes anonymity for the seller of goods and therefore assists in the identification of criminals.
<i>Transaction records</i>			
43	Records to be made by scrap metal dealers	Detailed records which include full identification of the seller, descriptions of the goods in detail, record of payment type and recording the transaction onto a computer database (with a copy held by police).	Ensures full records are kept and thus assists in providing an ‘evidence trail’ should it be required.
<i>Record keeping and handling of goods</i>			
45	Keeping of records	All receipts and records must be kept for seven years.	Assists in identification of stolen goods and provides evidence for convictions.
47	All goods to carry contract number	All individual goods must be marked with an identifying tag, which corresponds with the number given in the transaction record (Section 43).	Assists in identification of stolen goods and provides evidence for convictions.
61	Second-hand goods to be kept unchanged at least 14 days	Holding and securing the purchased goods for 14 days before resale – and no changes are made to the good (eg metal melted down).	Assists in the identification and recovery of stolen goods, as well as providing evidence for convictions.
79	Information about goods to be given to Commissioner in accordance with regulations	Electronically transmitting the recorded details to the WA police within 24 hours of the transaction taking place, either by computer or facsimile (Regulation 15).	Ensures full records are kept which will assist in enforcement.

Source. Marsden Jacob analysis (2020) based on Marsden Jacob (2009)

Option 2 – new legislative powers - based on the NSW Scrap Metal Industry Act

- Option 2 proposed new legislative powers in relation to scrap metal and scrap metal dealers. These powers could be written as a completely new Act or new stand-alone section which could be inserted into the *Pawnbrokers & Second-Hand Dealers Act*. The requirements of these new powers are drawn from and based on the NSW Scrap Metal Industry Act. Key impacts of the new legislative powers would include requirements such as:
 - A definition of scrap metal (including any exclusions such as aluminum cans)
 - Registration of a scrap metal business and/or dealer
 - Prescribed transaction records (with less information requirements than those required of second-hand dealers)

- Restrictions on the type of payments for scrap metal
- Prohibition around the sale or disposal of unidentified motor vehicles
- Obligations relating to suspected stolen scrap metal
- Enforcement (police powers and closure orders)
- Regulations (setting of license fees, fines, prescribed holding time for goods etc)

Table 19: Relevant new powers

Title	Description and associated requirements	Likely Objective
<i>Registration of businesses</i>		
Scrap metal business to be licensed	Need to obtain a licence (and undergoing checks to determine suitability – including a ‘good character’ check).	Clearly delineates the market and enables disciplining of fringe operators. Allows the exclusion of known criminals.
Premises in respect of which licences apply	Unless otherwise stated a licence only applies to one location where the business is operated (storage facilities can be included).	Creates a “closed system” for the location of stolen products strengthening enforceability.
<i>Dealer obligations</i>		
Payment for scrap metal	No purchase paid for by cash/cash cheque or in-kind payments	The seller cannot be anonymous – therefore making them easier to track as necessary
Report suspected stolen goods	Alert police should the dealer suspect the goods presented are stolen	Assists in identification of stolen goods and provides evidence for convictions
Motor vehicles	No buying and disposing of unidentified motor vehicles	Assists in identification of stolen goods and provides evidence for convictions
Prohibit disposal of suspected stolen scrap metal	If have suspected stolen scrap metal must keep in the original condition	Provides an evidence trail Assists in identification of stolen goods and provides evidence for convictions
<i>Transaction records</i>		
Records to be made by scrap metal dealers	Detailed records which include full identification of the seller, descriptions of the goods in detail, record of payment type and recording the transaction onto a computer database	Ensures full records are kept and thus assists in providing an ‘evidence trail’ should it be required.
<i>Record keeping and handling of goods</i>		
Keeping of records	All receipts and records must be kept for three years.	Assists in identification of stolen goods and provides evidence for convictions.