

Productivity Commission Research Study
Performance Benchmarking of Australian Business Regulation
Victorian Government Submission
October 2006

BACKGROUND

The Victorian Government welcomes the opportunity to comment on the Productivity Commission's Issues paper, Performance benchmarking of Australian business regulation. A summary of the submission's key points is in Box 1.

Box 1: Summary of key points

The Victorian Government supports:

- A benchmarking regime that will reinforce and drive commitment to reduce regulatory burdens on business
- Limiting the scope to regulatory costs affecting business
- A focus on general regulations affecting business establishment, ongoing business operations, growth (including investment) and employment
- A small set of robust, high profile indicators that provide a guide to changes in the regulatory burden on business over time
- Indicators based where practicable on international indicators, measures and standards to enable credible interstate/international comparison
- Measuring compliance costs (including administrative costs)
- A consensus approach to determining accountabilities for measurement, auditing and reporting, noting this will be important to secure the commitment of all jurisdictions.

A strong and dynamic economy is critical to delivering increases in living standards, and providing the greatest opportunities to address economic, social and environmental objectives. In the past, governments have typically intervened in markets where it was considered that the market outcome could be improved — either through correcting market failures, or providing more equitable outcomes. However, such regulation has not been without cost.

Burgeoning regulation and increasing regulatory complexity has often created a major burden on the parties being regulated. Regulation not only creates additional administrative burdens but can:

- distort decisions about investment and inputs
- stifle entrepreneurship and innovation
- divert managers from their core business activity
- prolong decision making
- reduce flexibility.

Furthermore, unnecessary and poorly designed regulation can result in unintended, undesirable side effects.

Initiatives that address undue regulatory burden are, therefore, good for Australia — they will reduce costs, provide more leeway to business and facilitate more growth. They will also help position Victoria and Australia to meet the significant social, environmental and economic challenges ahead.

To ensure Victoria and Australia can do this effectively, Victoria is committed to continuing to work with all Australian jurisdictions to ensure an effective, internationally relevant regulatory benchmarking framework is established.

The establishment of such an approach will be fundamental to maintaining the regulatory reform impetus that Victoria established with *A Third Wave of National Reform: A New National Reform Initiative for COAG*.

CONTEXT

In August 2005, the Victorian Government released: *A Third Wave of National Reform* proposal to COAG. Through *A Third Wave of National Reform* Victoria was breaking new ground as an Australian jurisdiction by proposing that all jurisdictions agree to measure the cost of new and existing regulation and commit to targeted reductions in those costs.

On 30 May 2006, with the release of the Victorian State Budget, the Victorian Treasurer announced the *Reducing the Regulatory Burden* initiative. This priority initiative commits the Victorian Government to reducing both the administrative and compliance burden of regulation. The three key strategies to reduce the burden of regulation are:

- cutting the existing administrative burden of regulation by 15 per cent over three years and 25 per cent over five years
- ensuring the administrative burden of any new regulation is met by an 'offsetting simplification' in the same or related area
- undertaking a program of reviews to identify the necessary actions to reduce compliance burdens.

This initiative will assist in improving Victoria's competitiveness and increase scope for regulatory harmonisation across jurisdictions. A preliminary estimate by the Victorian Department of Treasury and Finance, estimates that the administrative cost imposed on businesses by Victorian regulation is around \$3.3 billion per year (*Reducing the Regulatory Burden* initiative, 2006, p5).

The *Reducing the Regulatory Burden* initiative also builds on several broad regulatory reform initiatives that Victoria has implemented over the last several years including:

- establishing the independent Victorian Competition and Efficiency Commission (VCEC)
- establishing the interactive Business Victoria website (www.business.vic.gov.au)
- Local Government initiatives to support home based businesses
- establishing the Victorian Small Business Commissioner, one of whose roles is to reduce the burden of disputes involving small business
- introducing State Revenue Office online services.

GENERAL COMMENTS ON ISSUES PAPER

The Victorian Government generally supports the approach taken in the Issues paper and considers that the choice of performance indicators, coverage and reporting framework should be critically linked to the agreed objectives of performance benchmarking.

The Victorian Government also considers that any approach adopted should:

- have a proven track record of implementation and effectiveness; and
- allow easy, national and international comparison to occur.

The adoption of such an approach would allow all jurisdictions to cite an authoritative independent source that shows how they rank with respect to the relative burden of their business regulations. There is no doubt that Governments pay attention to such rankings and their potential to affect investment decisions, particularly footloose investments.

COMMENTS ON QUESTIONS RAISED IN ISSUES PAPER

Relevant existing studies?

<i>Are there any other international or domestic studies that could provide useful guidance?</i>
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There are three major international comparative reports that could inform the Commission's study — the World Bank Doing Business Report, to which the Issues paper refers, the OECD indicators of product market regulation and the World Economic Forum Global Competitiveness Report. Selected EU countries have also begun benchmarking their regulations using a standard cost model. A discussion of each of these approaches follows.

World Bank Doing Business Report

The Doing Business Report benchmarks 155 countries across categories that measure business regulatory cost and can be used to assess country's relative performance in delivering business regulation that does not unnecessarily constrict business establishment, growth or employment. In 2006, these ten categories were:

- Starting a business
- Dealing with licences
- Hiring and firing workers
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing a business.

Of these categories, the most relevant for benchmarking regulation within the Australian federation would be those concerned with starting a business, dealing with licenses, hiring and firing workers and the administrative burden associated with paying taxes.

The table below shows the main indicators used for each category.

Category	Main indicators
Starting a business	All procedures required to register a firm; average time spent during each procedure; official cost of each procedure; minimum capital required as a percentage of income per capita
Dealing with licences	All procedures to build a warehouse; average time spent during each procedure; official cost of each procedure
Hiring and firing workers	Difficulty of hiring a new worker; restrictions on expanding or contracting the number of working hours; difficulty and expense of dismissing a redundant worker; cost of a redundant worker, expressed in weeks of wages
Registering property	Number of procedures legally required to register property; time spent in completing the procedures; costs, such as fees, transfer taxes, stamp duties, and any other payment to the property registry, notaries, public agencies or lawyers
Getting credit	A Legal Rights Index, which measures the degree to which collateral and bankruptcy laws facilitate lending; a Credit Information Index, which measures rules affecting the scope, access, and quality of credit information; public credit registry coverage; private credit bureau coverage
Protecting investors	Transparency of transactions; liability for self-dealing; shareholders' ability to sue officers and directors for misconduct
Paying taxes	Total number of taxes paid; time it takes to prepare, file and pay (or withhold) the corporate income tax, the value added tax and social security contributions (in hours per year); total amount of taxes payable by the business, except for labor taxes
Trading across borders	Number of all documents required to export/import goods; number of signatures required to export/import goods; time necessary to comply with all procedures required to export/import goods
Enforcing contracts	Number of procedures from the moment the plaintiff files a lawsuit in court until the moment of payment; time in calendar days to resolve the dispute; cost in court fees and attorney fees, where the use of attorneys is mandatory or common, expressed as a percentage of the debt value
Closing a business	Average time to complete a procedure; cost of the bankruptcy proceedings; the recovery rate, which calculates how many cents on the dollar claimants (creditors, tax authorities, and employees) recover from an insolvent firm

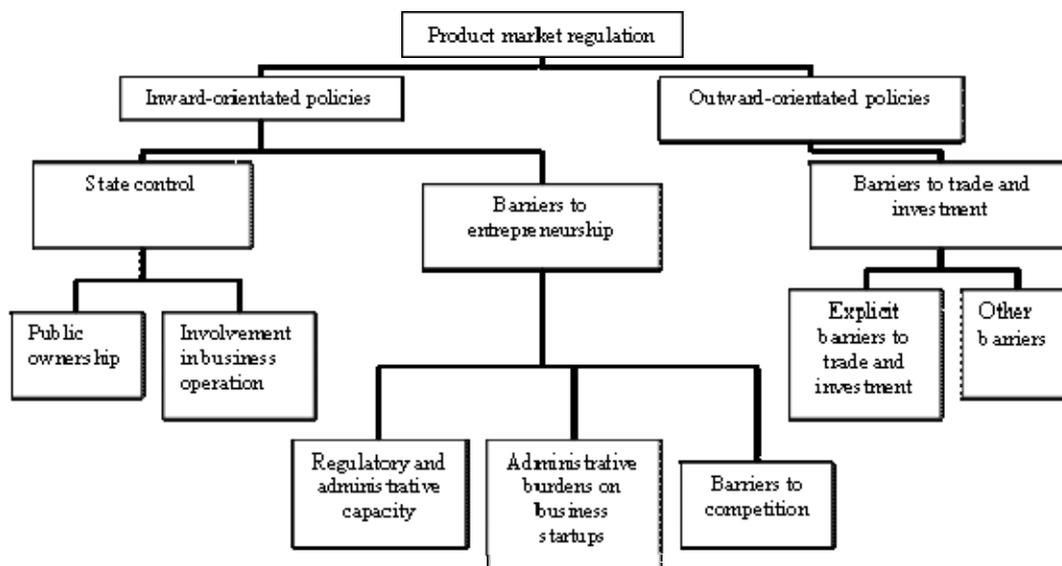
The World Bank has also reported on individual countries, making comparisons between cities. For example, the 'Doing Business in Mexico' report, released in 2006, compared Mexico City and 12 other cities against four areas of regulation. The report found that regulation in the cities differed dramatically and that reform was sorely needed. More recently, a second report, 'Doing Business in Brazil' was released.

OECD indicators of product market regulation

The Organisation for Economic Co-operation and Development (OECD) conducted two surveys of product market regulation that have benchmarked the relative performance of the 30 OECD member countries — first in 1998 and then in 2003. The OECD measured whether each country's approach to regulation promotes or inhibits competition.

A hierarchy of indicators was used to reflect the underlying policies that potentially impact on competition. Facts on the scope of rules and regulations were collected and used to derive low level indicators. The indicators were progressively aggregated to develop higher level indicators. Figure 1 illustrates the four highest level indicators.

Figure 1: The Product Market Regulation indicator system



Source: OECD, 2005, p8

This was further divided into 16 lower level indicators covering areas including:

- extent of public sector ownership
- price controls and other forms of command and control regulation
- licenses and permits
- administrative burdens on start ups for corporations, small firms and sector specific firms
- legal barriers to competition and exemptions from competition laws
- foreign ownership and other barriers to trade and investment
- other regulatory barriers.

This set of indicators provides a good basis for comparing one country with another since there may be quite significant differences between countries in areas such as competition law, trade and investment policies, and in legal and contractual arrangements.

Accordingly, some of these indicators might be appropriate for benchmarking the regulatory performance of the Australian federal government against international best practice. However, most of these matters would be subject to such minute differences between State jurisdictions that it would be virtually meaningless to adopt them for State to State comparisons. The exceptions are two categories of indicators under the general indicator group of 'barriers to entrepreneurship' which may be worth further consideration. They are:

- Regulatory and administrative capacity; and
- Administrative burdens on business start ups.

Regulatory and administrative capacity

Licenses and permits — includes whether there is a one-stop-shop for licensing and whether licences are issued automatically if the regulator does not respond within a set time.

Communications and simplification of rules and procedures — covers processes to simplify regulation and promote reductions in the regulatory burden on business.

Administrative burdens on business start ups

Administrative burdens for corporations — covers similar matters to the World Bank assessment of the costs of business start up, including the number of processes, the number of bodies involved and the time and cost of the process.

Administrative burdens for sole proprietor firms — the same criteria as corporations.

Sector specific administrative burdens — covers permits and licences required in the road freight sector, retailing food and clothing.

The 2005 report updated the results from 1998 to 2003 and analysed how countries' performance had changed over time. Inter-country comparisons were published for five different levels of indicators. The OECD concluded that since 1998, the regulatory impediments to competition had declined in OECD countries. However it is difficult to determine the impact benchmarking had on this result.

The World Economic Forum Global Competitiveness Report

The World Economic Forum (WEF) has been producing an annual report on the relative competitiveness of different economies since 1979. The report now covers 100 countries and its coverage is progressively growing. The latest report, *The Global Competitiveness Report 2006-07* was released on 27 September 2006.

The WEF currently uses three indicators: growth competitiveness index, global competitiveness index and business competitiveness index. There are some aspects of the business competitiveness index that may be worth looking at.

The business competitiveness index looks at microeconomic aspects of competitiveness that underpin the level of GDP per capita (Porter 2004, p29). Two areas make up the index — company operations and strategies and the national business environment.

The national business environment component of the business competitiveness index includes a small number of indices in some subcategories that relate to business regulation.

The national business environment category is divided into factor (input) conditions, demand conditions, related and supporting industries, and context of firm strategy and rivalry. The indicators for each category were chosen by analysing statistically the correlation between the indicator and economic prosperity, measured in GDP per capita. The indicators account for 83 per cent of the variation in GDP per capita (Porter 2004, p30).

WEF argues that their report helps develop strategies to achieve sustained economic progress by identifying areas where countries are performing poorly and ranking them against the performance of other countries (WEF 2006, p1).

While there is evidence that selected elements of the WEF report are referenced by Australian jurisdictions wishing to showcase their competitiveness on the world stage, the WEF set of indicators is probably the most appropriate for country to country comparisons and the least well suited to comparing jurisdictions within a federated nation such as Australia.

Benchmarking in Europe

A number of European countries, led by the Netherlands, Denmark and the United Kingdom, have assessed the administrative burden of their regulation using local variants of the International Standard Cost Model (this model is described in more detail in the section on 'reporting options').

A recent study, *International benchmark of administrative burdens related to selected EC Directives in the Netherlands, Germany and Denmark*, was released in July 2006. The study used standard cost model measurements as a benchmark to compare the administrative costs of selected EC Directives. The methodological learnings from the study were that (1) a benchmark based on existing standard measurement is possible, but needs additional information to explain the data and make it more comparable and (2) a quantitative analysis using standard cost model measurements is useful to verify the identified expected administrative burdens and to show how large they are (Ramboll Management 2006, piv).

Benchmarking for what purpose?

What purposes can benchmarking most usefully serve?

Benchmarking, when appropriately developed, should provide pertinent signals to governments and businesses about the regulatory frameworks which may not be working as well as could be and which require more detailed evaluation. In turn, such evaluation could lead to action directed at improving the cost-effectiveness of regulatory frameworks, including the regulatory burden on businesses. Benchmarking and associated indicators can achieve this by:

- highlighting poor performance
- providing information and knowledge on best practice
- providing incentives for governments to achieve or outperform benchmarks
- providing incentives for governments to be innovative in addressing issues.

An effective benchmarking regime that promotes competition for business investment between Australian jurisdictions and between overseas jurisdictions could lead to lower regulatory burden and greater regulatory efficiency.

There is no doubt that States compete for footloose investments and that their relative cost competitiveness — including the cost of doing business and complying with business regulations — is a key focus of such competition.

This can be seen in State government publications. For example, annual budget papers often include references to how a State ranks relative to other jurisdictions in relation, for example, to workers compensation premiums as a regulatory cost to business.

It is through this kind of 'competitive federalism' that States are compelled to strive continuously for more efficient ways to deliver their regulatory objectives. The development of best practice business regulatory benchmarks should aim to add to the suite of 'comparators' that States use to sell themselves to footloose investors, both relative to other Australian States, and to other competing jurisdictions outside Australia.

The existence of an authoritative, independent source that shows how a jurisdiction ranks on regulatory cost competitiveness could help maintain downward pressure on regulatory costs. However it will be important to recognise that some cost differences may be due to differences in regulatory objectives.

It is also important that the achievement of regulatory objectives (e.g. public health and safety) are not compromised in the drive to reduce regulatory costs on business. The aim of benchmarking is to drive governments to achieve regulatory objectives by the least cost means.

Key Point

The Victorian Government supports a benchmarking regime that will reinforce and drive commitment to reduce regulatory burdens on business.

What coverage?

How wide in coverage should the benchmarking be?

Which approach would be most cost effective?

The COAG commitment is to measure the cost of regulatory burdens on business, not overall regulatory performance. The Victorian Government supports limiting the scope to regulation affecting business. This coverage is consistent with the terms of reference of this research study and the Regulation Taskforce report, *Rethinking Regulation*.

Not-for-profit organisations will, of course, benefit to the extent that the benchmarking leads to reductions in the regulatory burden on activities which also affect them including business start ups, employment and the like.

Limitations

It should be noted that benchmarking the regulatory burden on business is only one of several factors that contribute to improving regulatory performance. Other factors include the effectiveness, efficiency and quality of regulators' operations (i.e. whether regulators display the widely-accepted principles of good regulation).

A regulatory scheme is the combined expression of regulation drafting, institutional arrangements (regulatory design), and administration and enforcement by the regulator (regulatory practice).

As the Issues paper acknowledges on page 9, burden indicators will not reveal anything about the source of regulatory burden (design or practice). Of themselves, burden indicators can make only a partial contribution to improving regulatory performance.

For example, one way to reduce regulatory burden is for a regulator to cut its information obligations (or attempt more information-gathering tasks itself thereby increasing costs to taxpayers) and consequently shift resources into its ex post enforcement activities (as it is concerned it has less information related to compliance). Its enforcement could be poorly targeted and not proportionate because it is not based on careful risk assessment. The business burden measure might decrease, but this is not necessarily 'better regulation.'

However despite the potential benefits of having a broader coverage, this is beyond the scope of the terms of reference.

Key Point

The Victorian Government supports limiting the scope to regulatory costs affecting business.

Which regulations or regulatory areas should be benchmarked?

The Victorian Government does not support confining coverage to COAG 'hot spots' as these do not include all areas of interest and may not be enduring 'hot spots' over time. Regulations in some of these areas, while important for a small number of businesses, do not pose burdens on a significant number of businesses (e.g. rail) and are therefore unlikely to satisfy the test of overall significance.

To be effective in driving best practice regulation, it will be important to limit the number of indicators to a relatively small set of robust measures that can be readily identified and understood by policy makers and businesses alike and can endure through time. This points to coverage of core regulatory areas that affect all or most businesses.

These should relate to regulatory areas that significantly affect the economy such as business establishment, ongoing business operations, growth (including investment) and employment. It is important that these areas have common regulatory objectives to enable meaningful comparison.

Reports such as *Regulation and Regional Victorian Challenges and Opportunities* (VCEC, 2005) and *Rethinking Regulation* (Regulation Taskforce, 2006) and government consultations with business have identified key priority areas for review or reform.

Below are some potential areas (not exhaustive) for benchmarking and can be categorised under four headings: business establishment, ongoing business operations, growth and employment.

Business establishment

- Business registration
- Licensing, including occupation licensing

Ongoing business operations

- Paying taxes (measuring the administrative cost of tax compliance, not tax rates)
- Accounting and reporting requirements
- Annual licensing requirements

Growth

- Planning and building regulation
- Environmental regulation
- Consumer protection

Employment

- Industrial relations
- Workers compensation
- Superannuation

Victoria prefers that benchmarking be applied to regulation that affects businesses generally. However, to the extent that industry specific requirements are included in business establishment, for example, consideration might need to be given to incorporating such industry specific requirements.

Key Points

The Victorian Government supports a small set of robust, high profile indicators that provide a guide to changes in the regulatory burden on business over time.

The Victorian Government supports a focus on general regulations affecting business establishment, ongoing business operations, growth (including investment) and employment.

What are the reporting options?

How should regulatory burden be measured?

Regulatory costs include:

- Direct costs of compliance (including administrative burden costs)
- Financial imposts (e.g. charges and fees)
- Indirect/market costs (e.g. regulatory impacts on market structure or consumption patterns).

The direct cost of compliance involve a business in having to pay entities (e.g. staff, suppliers, contractors) to provide goods and/or services that enable the business to meet regulatory obligations.

Direct costs can be distinguished from financial imposts in that:

- Direct costs are normally payments made under contract to parties other than government (although there may be some exceptions in terms of government trading enterprises such as water companies); and
- Financial imposts are direct statutory obligations and no goods or services are provided to the business in return for payment.

Indirect or market costs do not represent direct payments by a business; instead they are more likely to be opportunity costs and are measured primarily in terms of impacts on consumer demand (and then consequently on the firm's supply costs).

Victoria considers that benchmarking should focus on the direct costs of compliance, and exclude financial imposts and indirect/market costs.

In Victoria, the *Reducing the Regulatory Burden* initiative distinguishes explicitly between administrative burden costs and other compliance costs. Administrative burdens relate primarily to the cost of collecting, analysing and reporting information to government agencies.

The Victorian Standard Cost Model (VSCM) is being developed to measure changes in administrative burden costs imposed by State government regulation on business; whereas other compliance costs are measured using general cost-benefit analysis tools. A description of the VSCM is in Box 2.

Box 2: The Victorian Standard Cost Model

The VSCM is based on the Standard Cost Model which was developed by the Dutch to provide a consistent method for estimating the administrative costs imposed on business by government. It has been adopted by more than 20 countries to date and is currently being used by the OECD to compare regulatory regimes in different countries.

The benefit of using the Standard Cost Model is that increases and decreases in the administrative burden are measured against a consistent and rigorous framework that has been successfully adopted in a number of countries. This allows interstate and international comparisons.

The measurement process involves three distinct phases:

1. Preparatory analysis

— The sections of the regulation that are to be amended must be mapped into information obligations, data requirements and administrative activities.

— The cost parameters that measure quantity (i.e. population and frequency) must be determined for each information obligation using resources such as departmental information and statistical sources.

— The cost parameters that measure price (i.e. tariff and time) must be identified in preparation for the empirical data collection in phase two.

2. Empirical data collection

— Empirical estimates of the cost parameters that measure price (i.e. tariff and time) must be collected by conducting business interviews.

— Interviews are conducted by asking selected businesses to estimate how long it takes to undertake each administrative activity.

3. Calculation and reporting

— The data collected on the cost parameters that measure price need to be standardised to determine how much it costs a ‘normally efficient’ business to undertake each administrative activity.

— All data sets are entered into the Standard Cost Model spreadsheet.

— The Standard Cost Model formula is used to calculate the cost of the information obligation to the Victorian economy, on a yearly basis.

Key Point

The Victorian Government supports measuring compliance costs (including administrative costs).

How useful are indirect measures?

While direct measures would be the most useful, in some cases they will not be available, and therefore the only option is the use of indirect measures as proxies. The choice of indirect measures will depend on the nature of the particular regulatory activity being assessed.

What scope is there to target incremental or unnecessary cost burdens?

The identification of a cost burden as “unnecessary” indicates that a judgment has already been made that the burden should be eliminated. The key difficulty is in determining which aspects of a regulatory framework are not providing benefits sufficient to justify their costs.

In Victoria, incremental burdens are being tackled partly through the requirement that offsetting simplifications are identified for each new or additional burden imposed by new or amended regulation.

Are these reporting options feasible, and for which areas of regulation?

These reporting options are generally feasible across all areas of regulation that are undertaken by multiple jurisdictions. However, the cost of collecting quantitative indicators, for example, may be prohibitive in some cases.

The choice of whether to use a quantitative or qualitative indicator will depend on the nature of the regulatory area. For example, quantitative indicators are appropriate in measuring the cost of tax compliance. In other areas, such as planning and environmental approval processes, which are more complex, qualitative indicators may be more appropriate.

Which of the options do you think are cost-effective?

This is likely to require more detailed investigation. Consultation with business will help determine the most cost effective options.

Reporting on differences in regulatory-making processes, legislation, agency coordination etc (referring to the fourth bullet point on pg 12 of the Issues paper) may not be cost effective in reflecting any additional burden. For example, an increase in informational requirements would be captured by the Standard Cost Model.

What caveats might apply?

How should the benchmarking deal with such data, measurement and comparability limitations?

International studies use various techniques to facilitate comparability.

- The World Bank and WEF both focus on general, rather than industry specific regulatory requirements. This gives a guide to the general regulatory environment. It helps to avoid the problems of how to aggregate regulation in different industries but it may mean that significant areas of regulation are not accounted for.
- The World Bank uses standardised business scenarios and standard business processes so that equivalent situations can be compared across countries. The weakness in this approach is that it may not reflect a typical business in that country, the business costs facing different business types or the costs facing regional or remote businesses. For an Australian study, the problems of differences in a typical business are less, but the issues regarding the costs to different business types (incorporated versus non-incorporated for example) and regional differences would still be relevant.
- WEF uses opinion surveys to collect data. This produces views on the overall impact of regulation on business, regardless of the mix of business or regulation in that country.

How important is it to enumerate the qualifications for each benchmarking comparison?

If by 'enumerate' it is meant that the qualifications should be clearly described, then it is very important. If by 'enumeration' it is meant that they should be quantified, this may not be feasible or practical in many cases.

Which indicators?

What criteria should be used in selecting indicators?

The Victorian Government supports the indicators being guided by established international methodologies. This approach has two advantages. First, the indicators and data collection processes are developed and tested. Second, the results would be comparable across Australia and internationally. However as there does not appear to

be an international study that is ideally suited to the Australian context, a tailored approach will be necessary.

Generally, two approaches can be taken to developing indicators for benchmarks. One uses indicators based on whether regulatory *processes* have best practice characteristics. The other measures the regulatory *outcomes* of these processes. The World Bank and the OECD use a combination of these approaches. They use outcomes based indicators measuring the costs of processes and the time taken, but also count the number of processes and the number of regulators, which is a proxy for complexity.

Both approaches have strengths and weaknesses. Analysing regulatory processes assumes that good regulatory processes will deliver good regulatory outcomes. While this is not always the case, it is often true. These measures are often easier to estimate and observe, making data collection less complicated.

Victoria has no objection to the inclusion of indicators of best practice regulatory processes. The indicators should reflect COAG endorsed best practice regulatory principles.

For example, in February 2006 COAG agreed that Governments will establish and maintain effective arrangements at each level of government that maximise the efficiency of new and amended regulation and avoid unnecessary compliance costs and restrictions on competition (Decision 5.1). This includes the use of 'gate keeping mechanisms', cost-benefit analysis, more sophisticated costing models and regulation impact analysis.

Estimates based on outcomes can also be powerful drivers of reform. They are more accessible for business as they measure things businesses relate to, such as cost and time. Many outcomes, however, such as regulation's impact on innovation, are difficult to measure.

The indicators for Australian should allow for legitimate comparison across jurisdictions to be made. The risk is that a benchmark will be misleading because it does not reflect the differences in industry structure among the Commonwealth, states and territories. The comparability of results can be affected by the indicators chosen and the way those indicators are aggregated.

The key characteristics of any benchmarking framework that would encourage improvements in regulatory performance include:

- Aggregation of the measures so that overall performance can be compared. This would involve aggregation of indices or rankings, rather than trying to aggregate the total cost of regulation
- Transparency in the indices and their components and the ability for stakeholders to disaggregate the performance indicators to understand the areas of poor performance
- Reliable data sources and checking processes
- Strong correlation between the indices and the business impacts they are trying to measure
- Transparent reporting and explaining changes over time, in particular highlighting how performance has been improved.

Key Point

The Victorian Government supports indicators based where practicable on international indicators, measures and standards to enable credible interstate/international comparison.

For the benchmarking of interest to you, what are some of the indicators that you think should be used?

Relevant indicators used by the World Bank Doing Business report (such as starting a business, dealing with licences, hiring and firing workers and paying taxes) are a useful guide.

It is worth noting that the Local Government and Planning Ministers Council have initiated a review of local government development assessment processes and referrals. The Ministerial Council has established a working group — the Development Assessment Forum (DAF) — that has prepared a Leading Practice Model for Development Assessment. Victoria contributed actively to the development of this model and is promoting its implementation in Victoria.

Data collection, compilation, assessment and reporting

What scope is there to get accurate information from businesses in Australia?

Generally there is excellent scope, as business organisations and leaders have frequently expressed their concern regarding the perceived increasing burden of regulation, and have stated their support for robust and practical measures to reduce it. Most information will need to be obtained from sampling, however, as the costs of universal collection of data are likely to be prohibitive and unnecessarily burdensome.

How useful are qualitative survey results in benchmarking?

Qualitative surveys can provide valuable information but can be costly, requiring adequate sample sizes if the results are to be robust.

How important is it to ensure that businesses are sampled rigorously so that benchmarking results are representative and can be aggregated?

It is essential that businesses are sampled rigorously in order to establish that proposals for reducing regulatory burdens will achieve their aims in the manner and to the extent intended.

To what extent does relevant benchmarking data already exist within jurisdictions?

There appear to be four main approaches to data collection:

- Desktop studies of publicly available information on regulation and its costs
- Surveys of government officials or business advisors about regulation and its costs

- Surveys of business about its views on the regulation and its costs
- Information already collected through other surveys or processes.

All four approaches are options for an Australian benchmarking project. The fourth approach can be low cost but depends on the availability of such information. The third is usually the most costly because it collects subjective views that are difficult to validate through auditing and therefore the survey needs to be large enough to be statistically robust. The second approach can rely on smaller samples, because the data can be cross-checked against other sources, such as desktop studies, and the participants can be questioned to clarify inconsistencies or deficiencies in the information.

Issues in aggregation

When averaging indicators, the key issue is whether each indicator should be weighted equally in the overall ranking. The OECD and WEF weight indicators based on estimates of their significance to the composite indicator being calculated. The World Bank does not weight the components of its rankings. It uses a simple average because after investigating the use of more complex formulae, it concluded that they would add to cost and complexity without making a significant difference to the rankings.

If Australia chose to include benchmarks for individual industries in its measure of overall regulatory cost, it could develop different industry weights for each jurisdiction, depending on the industry's contribution to gross state product.

Business and government participation

What institutional arrangements would enhance the benchmarking?

Stakeholder consultation

Extensive consultation with business, frequently through business and occupational associations, is very useful for identifying which regulatory burdens are of primary concern and how they might be modified without compromising the intended policy outcomes of regulation (and indeed sometimes making these intended outcomes more achievable).

For example, for Victorian State taxes, the State Taxes Consultative Council (STCC) was established in December 1992 for the purpose of facilitating communication and liaison between the State Revenue Office (SRO) and peak professional bodies and to permit members of those bodies to have input into policies and procedures adopted by the SRO. Its membership comprises senior representatives from industry and professional bodies together with senior SRO personnel. Meetings of the STCC are hosted by the SRO on a quarterly basis, and the outcomes of these meetings are posted on a public website.

In addition to the regular meetings with the STCC, the SRO also consults with a specific group by email in the process of developing revenue rulings, forms and publications. This group comprises all the other State Revenue Offices, the STCC, the Victoria Workcover Authority, the Federal Chamber of Automotive Industries and a few individuals who are prominent in the field of State Taxes. In addition, the SRO consults

with peak bodies on both one-off legislative proposals and tax administration matters generally.

Governance arrangements

There are a number of potential institutional arrangements for a benchmarking regime. The Productivity Commission could establish the set of indicators and prescribe the measurement methodology, with each jurisdiction to do its own measurement and reporting, subject to some independent 'auditing'. Alternatively, a centralised data collection and publication arrangement could be chosen. There are pros and cons to either model that should be considered and discussed with all affected jurisdictions.

Key Point

The Victorian Government supports a consensus approach to determining accountabilities for measurement, auditing and reporting, noting this will be important to secure the commitment of all jurisdictions.

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