

Invigorating  
Business  
Representation



# 2007 Australian Business Priorities

## Fixing the Federation



Invigorating Business Representation

# Executive Summary

The Australian economy is the envy of the industrialised world.

Australia is entering its 16th successive year of sustained economic growth<sup>1</sup> – a period of growth unparalleled in Australian history. Unemployment has fallen to historic lows, real wages are rising, industrial disputes are at all time lows and according to the United Nations, Australia is currently ranked third on its Human Development Index<sup>2</sup>. The Australian Economy is now consistently rated as “the world’s most resilient economy”<sup>3</sup>.

This economic turnaround can be attributed to a commitment by successive State and Federal Governments to two decades of economic reforms. Governments have undertaken a process of continual reform in the areas of regulation, competition, taxation, trade, workplace relations and in the performance of government enterprises.

One critical area of failure by the Federal and State Governments has been in developing a better model of co-operative Federalism. Despite the economic performance of Australia, the operation of the Federation is becoming increasingly dysfunctional. Blame-shifting between the two levels of government has become the third certainty of life – joining death and taxes.

As the Federal Treasury has noted “joint government involvement in the same functional areas raises significant challenges including complexity for the public, cost and blame-shifting, and possible duplication or gaps in service delivery”<sup>4</sup>.

Increasingly, major debates in areas such as taxation, infrastructure, health, workplace relations and education have become demarcation disputes between the Federal and State Governments.

During 2007, the debate over the nature of the Federation has accelerated with the Commonwealth indicating interests in the Murray-Darling basin, Mersey Hospital, the ports, indigenous affairs in the Northern Territory and Queensland local government amalgamations. The Federal Opposition has also flagged a possible takeover of public hospitals if hospital performances do not improve by 2009<sup>5</sup> and a willingness to cut State GST payments if it has to do so<sup>6</sup>.

Events appear to have overtaken the capacity of the Council of Australian Governments (COAG). Whilst COAG is charged with the responsibility to “initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian governments”<sup>7</sup>, it can be argued that the institution has become focused on dealing with “low hanging fruit” and is currently incapable of dealing with the more vexed issues facing the Federation.

The States have also created their own organisation “the Council for the Australian Federation”. The Council, which is modelled on the Canadian Council of the Federation<sup>9</sup>, deliberately has no Federal membership and is a Council of State and Territory representatives. The objectives of the Council include “complement the work of COAG and facilitate COAG-based agreements with the Commonwealth by working towards a common position among the States and Territories” and “reach collaborative agreements on cross-jurisdictional issues where a Commonwealth imprimatur is unnecessary or has not been forthcoming”<sup>8</sup>.

The concern of business is that the dysfunction of the Federation has become a drain on Australia’s capacity to achieve and grow. The Business Council of Australia conservatively estimates the cost of this dysfunction to be \$9 billion<sup>10</sup>, or put another way, the cost of this dysfunction is in excess of the entire Budgets of the Tasmanian<sup>11</sup> and Northern Territory<sup>12</sup> Governments.

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1 ABS, Australian National Accounts: National Income, Cat No 5206.0, March 2007

2 <http://hdr.undp.org/hdr2006/statistics/> The Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education, and standard of living for countries worldwide.

3 International Institute for Management Development (IMD) World Competitive Yearbook 2006 (Australia has held title of most resilient economy for five successive years)

4 Federal Treasury, Budget Papers 2005/06, 4-17

5 Leader of the Opposition, Media Release, 23 August 2007

6 The Australian, Monday 27 August 2007. Rudd Statement to the Australian regarding ALP Health policy and funding “This will involve a parallel reduction in the commonwealth outlays to the states and territories from all sources for these hospitals. This includes the Australian Health Care Agreement, specific purpose payments and other such funding arrangements.”

7 <http://www.coag.gov.au/about.htm> (27 August 2007)

8 [http://www.premcab.sa.gov.au/dpc/government\\_caf.html](http://www.premcab.sa.gov.au/dpc/government_caf.html)

9 For more information visit <http://www.councilofthefederation.ca/>

10 Business Council of Australia, Reshaping Australia’s Federation, Pg v

11 Department of Treasury and Finance (Tasmania), 2007-08 Budget, Budget paper 1.3

12 Northern Territory Treasury, 2007-08 Budget, Table 2.1



Continued national prosperity, driven by a sustained improvement in the terms of trade and a strong Federal budget position, is masking the deterioration of government performance and also its cost and impact on Australian businesses.

A climate has developed whereby interactions between the Commonwealth and the States have become subservient to the politics of the day, or are being dealt with through a complex, haphazard and undisciplined distribution of cash that inspires little confidence in the integrity of the process.

To allocate blame to either level of government would be to simply perpetuate the dysfunction. No level of government is free from blame and no political party as yet has offered a comprehensive solution.

NSW Business Chamber believes 2008 should be recognised by all levels of government as the Year of the Federation with a Constitutional Convention held to identify ways of improving the performance of the Federation. Importantly, 2008 marks only the third year since Federation when no Federal or State Election is scheduled. The absence of elections provides a window of opportunity to develop a new framework for the Federation.

### Recommendations

- 1 That 2008 be declared the "Year of the Federation" with a Constitutional Convention held to identify ways of improving the performance of the Federation.
- 2 Constitutional Convention to mark a formal end to unilateral Commonwealth incursions into State issues and an end to State obstruction of Commonwealth goals.
- 3 The Constitutional Convention to determine which layer of government is responsible for vocational education and training.
- 4 Fast-tracking of national consistency and standards for school education across Australia.
- 5 Federal, State and Territory Parliaments to all have fixed four year terms – and for elections to be held on the same day every four years.
- 6 Formal referral of workplace relations powers by the States to the Commonwealth.
- 7 Federal, State and Territory Governments to develop nationally consistent and sensible Occupational Health and Safety laws.
- 8 Productivity Commission to undertake an independent review of the GST distribution formula.
- 9 The appointment of a Federal Minister for Infrastructure who will work with the States to develop a National Infrastructure Plan.
- 10 The Federal, State and Territory Governments to develop an integrated policy framework and platform for climate change initiatives.

## Australian Business Priorities 2007

Australian Business Priorities 2007 surveyed over 460 businesses about a range of business issues.

The breakdown of participation is as follows:

NSW Business Chamber members	306
Hunter Business Chamber members	68
Illawarra Business Chamber members	49
Sydney Chamber of Commerce members	13
Regional chambers	27

In NSW Business Chamber's 2004 Business Priorities survey, the overwhelming issue for members was high levels of taxation. The concern about taxation as an issue has somewhat diminished since 2004 and this could possibly be attributed to the continued strength of the economy.

However, Australian Business Priorities 2007 found significant concern by business at the extent of government regulation. 43% of businesses rated government regulation a major concern. This compares with 15% who rated the economy as a major concern, 17% for complying with the tax system, 29% for skills development and 33% for infrastructure.

The complete survey findings are available at the end of this report.

It is clear from the findings of Australian Business Priorities 2007 that business believes the performance of government can be improved. When coupled with the findings of NSW Business Priorities 2007, it can be argued that the failures of the Federation are impacting on the performances of both Federal and State Governments.

Australian Business Priorities is structured similarly to NSW Business Priorities, both making assessments against the five major policy areas identified by the Chamber, namely:

- 1 Growing a dynamic workforce
- 2 Strengthening the performance of government
- 3 Staying competitive
- 4 Renewing Economic Infrastructure
- 5 Preparing for climate change



# 1 Growing a dynamic workforce

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Australia is experiencing its greatest employment boom in history. Unemployment has fallen from 5.2% in October 2004 to 4.3% in August 2007. Since the last Federal Election, 752,600 jobs have been created, including 546,300 full time jobs<sup>13</sup>.

At the same time, vacancy levels have risen by 31% from 127,600 in August 2004 to 165,000 in May 2007<sup>14</sup>.

Skill shortages will only worsen in coming years with the 2007–08 Budget Papers estimating continued employment growth and the impacts of the ageing of the population increasingly felt. The ageing of the population will be a drag on the national economy with real GDP growth over the next 40 years expected to be 1.6% compared to 2.1% for the last forty years<sup>15</sup>.

According to the Department of Employment and Workplace Relations, Australia will face a shortage of 195,000 workers by the end of 2010<sup>16</sup>.

The challenge for all levels of government will be to increase the size of the workforce through migration, increase workforce participation, and identify the appropriate mix of education, training, tax and welfare measures that will encourage continued productivity growth.

## Workplace Relations

Following the 2004 Federal Election, the Federal Government indicated its intention to use the Corporations power of the Constitution to develop a single workplace relations system.

In November 2005 the Workplace Relations Amendment (WorkChoices) Act passed through the House of Representatives and in December was passed by the Senate. The new system commenced in March 2006.

The new legislation was challenged by all States and Territories in the High Court and in November 2006, the High Court rejected the arguments of the States by a margin of 5 – 2. It should be noted that the Corporations power does not extend the national system to State based employers that are not constitutional corporations.

Since the introduction of the new Federal system, industrial disputes have fallen to the lowest level in Australian history. The effect of this decline is reflected in the Australian Business Priorities Survey. For the first time ever, concern about industrial disputes ranked 72nd (last) of the 72 questions asked about business concerns.

Over 417,900 new jobs have been created since the introduction of WorkChoices in March 2006, 84% of which are full time jobs<sup>17</sup>.

The Federal Opposition has committed itself to re-regulating the current national system of workplace relations and also to seeking a formal referral of powers from the States rather than relying on the Corporations power.

Re-regulating industrial relations was a significant potential concern. When asked about a "rollback of industrial relations reform" 39% replied this was a "major concern" in the Australian Business Priorities Survey.

It should also be noted that the NSW Labor Government has already indicated its opposition to any formal referral of powers. The NSW Government continues to operate a "shell" industrial relations system with an Industrial Relations Commission.

The NSW Government has adopted and maintained an antagonistic response to the Federal legislation. To combat the new system, the NSW Government has quarantined most public servants in the State system. In November 2006 it passed legislation applying NSW workplace relations coverage to all workers under the age of 18 employed by constitutional corporations on or after 27 March 2006. The NSW legislation for employees under the age of 18 brings these employees back under the State unfair dismissal regime and effectively requires their employers to meet both NSW state award standards as well as Federal standards. This confrontational duplication of regulation for employees under the age of 18 is a clear disincentive to employ young people, and is particularly dysfunctional at a time when the nation is seeking to encourage traineeships and apprenticeships.

This youth legislation followed legislation which deemed NSW consent awards to be enterprise agreements for any constitutional corporation they applied to immediately before 27 March 2006 with no simple, costless way of determining whether a particular award had become an enterprise agreement or not.

The NSW Government has also indicated its intention to restrict access to Government procurement contracts from companies that do not meet NSW award standards. This decision has further complicated procurement in NSW.

## Recommendations

The States with "shell" workplace relations systems outside the Federal system should refer their workplace relations power to the Commonwealth.

Federal workplace legislation should support the capacity of employers and employees to determine their own patterns of work and working conditions appropriate to the workplace so far as is consistent with reasonable protections.

## Occupational Health and Safety

Both the Government and Opposition have indicated support for national occupational health and safety laws, though both clearly have different interpretations about how such legislation would work.

It is not clear how such a national system would work, or how it would be achieved although the Federal Opposition has indicated a preference for a collaborative approach, with financial incentives, which results in harmonisation without the Commonwealth displacing State rights in this area.

It also needs to be acknowledged that State and Territory governments are themselves seeking to better align features of their OH&S and workers compensation systems.

However it is evident that whatever mechanism is to be used, it needs to deliver outcomes that result in a significantly more effective and efficient system.

Already the expanding use of Comcare as a means of delivering a national OH&S system for some employers has created complexities in the OH&S area. As the Federal Shadow Minister for Industrial Relations has acknowledged "on one work site there can be multiple systems in operation and confusion about who is covered by Comcare and who is not" and "this confusion and lack of consistency presents very serious issues for the way in which the market functions as companies operating in the same market face different compliance and enforcement regimes and therefore different costs. Rather than introducing policy that reduces red tape and regulation, we are creating a very uneven playing field for firms competing in the same markets"<sup>18</sup>.

Companies covered by Comcare fall within Federal OH&S law, however their contractors, subcontractors and suppliers inevitably are covered by State law. This potentially means that two OH&S systems with differing standards can and do operate on the same worksite.

## Recommendation

Progress towards a nationally consistent OH&S system has been slow and limited. Uncoordinated change produces confusion, cost and complication for business. Commonwealth, State and Territory Governments must work constructively together to achieve nationally consistent but sensible OH&S laws.

## Education

There is increasing conflict between Federal and State Governments about the conditions of tied funding.

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The issue for education is the shared responsibility. While the responsibility of the Commonwealth is focussed on the delivery of school education outcomes, it is the responsibility of the States and Territories to administer the allocation for individual school operation. In an attempt to deliver increased national consistency, the Commonwealth is initiating a range of interventions such as increased funding for teacher professional development and in the case of Australian Technical Colleges (ATCs), operation of the school.

Each State and Territory has their own standards for school reporting against achievement and jurisdiction specific curriculum. As a result, there is little in the way of appropriate benchmarks to clearly communicate achievement and identify minimum standards for literacy and numeracy across the country. There is no nationally consistent starting age for students and there is no single statement of achievement for students exiting the school system at Year 12. The impact of this is felt by the 80,000 students who move interstate each year.

The lack of consistency in the starting age for students and the lack of an agreed common curriculum for english, maths, science, history and geography results in many difficulties. Employers cannot easily assess the educational accomplishments of potential recruits and students in areas close to State/Territory borders or who move between jurisdictions.

There is a legislative requirement tied to funding for States and Territories to develop a single national curriculum for english, maths, science, civics and citizenship and information and communications technology (ICT) to be implemented by 1 January 2008 along with common testing standards. For the business community this is a step in the right direction.

To achieve change, the Australian Government is increasing funding allocations to the States and Territories, enabling them to manage the operation of the public school sector.

A further issue for school education is that while the Commonwealth provides 100% funding for privately operated schools, it is administered by the States and Territories and therefore based on state legislation and Boards of Studies requirements rather than to nationally agreed standards.

## Recommendation

While there has been an attempt to progress national consistency and standards, including the establishment of a single national statement of attainment for year 12 school leavers, the progress has been slow. The States should become more willing participants in these negotiations and the Commonwealth should provide the appropriate incentives to do so.

13 ABS, Labour Force, Cat no 6202.0.55.001

14 ABS, Vacancies, Cat no 6354.0

15 DEWR, Workforce Tomorrow, November 2005

16 Ibid

17 Australian Bureau of Statistics, Cat No: 6202.0.55.001 Table 02.

Labour force status by Sex – Seasonally adjusted

18 Speech by Julia Gillard to the Victorian Division of the Safety Institute of Australia, 29 August 2007



### Australian Technical Colleges

The establishment of Australian Technical Colleges (ATCs) has met with mixed success around Australia. The process has been impeded by both Federal and State Government requirements which means that co-operation between the two levels of government has been in many places close to impossible.

In NSW for example, opportunities for shared use training infrastructure through state funded schools and TAFE colleges has not occurred to any great extent. This has resulted in a duplication of resources as additional funding is spent on infrastructure that is not used to its full capacity.

Additionally, both levels of Government are creating vocational focused institutions – ATCs and NSW Trade Schools. Whilst generally this is beneficial for skills development to address trade shortages, it is adding complexity and confusion for employers who are being approached to participate in these activities through employment of school-based or part-time apprentices. In a number of regions there is both a Trade School and an ATC planned or operating.

In NSW/ACT there are nine ATCs in various stages of development and operation and at least 10 Trade Schools have been announced by the NSW Government.

The ATCs are running behind schedule and behind budget. Any effective utilisation of existing infrastructure has not occurred.

### Apprenticeships

The funding of apprenticeships occurs at a Federal level, in many cases utilising State based facilities (TAFEs), whilst the structural elements of learning are controlled by State authorities.

Again this is a shared responsibility between the Commonwealth and States/Territories. The three year bi-lateral skilling agreements are based on agreed priority skill areas and therefore performance outcomes are based on the numbers trained in these areas. As part of this agreement, the Commonwealth provides funds for employer and apprentice incentives, including programs such as 'tools for the trades', while the Commonwealth and the individual jurisdiction identifies the priority training areas and shares responsibility for the provision of funds for the delivery of training, managed by the State and/or Territory.

The Commonwealth and the States and Territories agreed in 2000 to the full implementation of User Choice for the delivery of Vocational Education. This is where the employer has the choice of training provider (TAFE as a publicly funded provider or a private Registered Training Provider). Full implementation is far from being achieved and consequently acts as a barrier to effective workplace specific training in NSW.

While it is acknowledged that the vocational training initiatives introduced over the last 10 years have significantly increased the numbers engaging with structured Vocational Education & Training, the current model does not facilitate responsiveness to the changing skill needs of business.

The allocation of funds to TAFE based on Annual Student Contact Hours (ASCH) results in prescribed delivery mechanisms that are time based rather than competency based and will not lead to responsive training. It is critical that flexibility in delivery and funding models be prioritised to build the skills needed by existing and older workers as well as to assist those who are seeking employment to leave the welfare system.

### Recommendations

The vocational training sector should be supported to accommodate the changing needs of both individuals and business. The current funding model should be simplified and focussed on achieving employment outcomes of training not the delivery structures. The current model of shared responsibility between the Commonwealth and the States and Territories must also be reviewed to determine if improved delivery could be achieved by transferring responsibility to one or the other.

## 2 Strengthening the performance of government

The greatest impediment to the performance of all levels of government is the current operation of the Federation. COAG has not demonstrated a capacity to deal with complex issues or to provide a setting for issues to be fast tracked. The twice a year COAG meeting appears to be focused on what can be achieved in a day rather than on providing real solutions to complex policy issues.

The Commonwealth has committed itself to a more interventionist path, but without giving details of the structure of that path. The Prime Minister's view on possible interventions is as follows:

*“We should want and aspire to achieve the best possible outcomes for Australians wherever they might live and by whatever method of governance will best deliver those outcomes. Sometimes that will involve leaving things entirely to the states. Sometimes it will involve cooperative federalism. On other occasions, it will require the Commonwealth bypassing the states altogether and dealing directly with local communities”<sup>19</sup>.*

Similarly, the Leader of the Opposition has said:

*“The challenge for a future Labor government will be to rebuild the Federation. And it is my argument that the Federation can be rebuilt based on the principles of co-operative (rather the coercive) Federalism. If Federal Labor succeeds in this enterprise, it will create a sustainable political and constitutional mechanism to deliver lasting reform to the nation; to implement a progressive policy agenda that is likely to endure beyond subsequent changes in the political cycle at either a Commonwealth or State level”<sup>20</sup>.*

Subsequent to promoting co-operative Federalism, the Leader of the Opposition has stated his support for a re-regulated single workplace relations system, a possible takeover of the State based hospital system, constitutional recognition of Local Government, a re-constituted GST agreement and a referendum to provide the Australian government with more powers.

The Commonwealth can have confidence about any intervention because of the significant vertical fiscal imbalance (VFI) that occurs between the Commonwealth and the States. According to the NSW Government, *“the Commonwealth collects around 80% of national taxation revenue (including the GST), but is responsible for around 54% of total expenditures. The States collect around 16% of total taxation revenue but undertake around 40% of all government outlays”<sup>21</sup>.* Levels of VFI in Australia are very high compared to federation style governments in the USA, Canada and Switzerland<sup>22</sup>.

The exaggerated levels of VFI, combined with a willingness by the current Federal Government to intervene in traditional State matters is seeing a redefinition of the work and the roles of the States.

The Commonwealth has already, through the use of the Corporations power in the Constitution, taken over Workplace Relations and it is also seeking control of administration of the Murray Darling basin and Mersey Hospital in Devonport. The Commonwealth has also launched a major intervention in the administration of indigenous affairs in the Northern Territory.

Each intervention by the Commonwealth has both supporters and critics. Indeed, NSW Business Chamber has been a vocal supporter of the Commonwealth's intervention in workplace relations.

The Commonwealth argues that it intervenes to improve policy outcomes. The States argue the interventions are haphazard, more about politics than economic outcomes and are producing sub-optimal outcomes.

An economic analysis of the issue undertaken by the BCA, prices these inefficiencies at \$9 billion per year. The trend forwards the centralisation of the Commonwealth is continuing without any coherent or co-operative plan to deal with this. It should be noted that the same criticism can be made of the Opposition who have made commitments to fund the construction of 2,650 extra trade workshops in schools without providing funding for the technical teachers needed for the classrooms<sup>23</sup>. The Opposition has also indicated a willingness to take control of the hospital system and fund it through ending the current GST Agreement.

### Recommendations

Declare 2008 the “Year of the Federation” and establish a Constitutional Convention in 2008 to assess the current performance of the Australian Federation and to recommend measures that improve performance as well as cut duplication and waste.

Recommendations from such a Convention must include commitments to improve funding and accountability mechanisms between all layers of government and to end the regular incursions and demarcation disputes between the Commonwealth and the States and Territories.

The Commonwealth, State and Territory Parliaments should all have fixed four year terms – and for elections to be held on the same day every four years. Appropriate mechanisms should be put in place in all State and Federal Parliaments to allow this to occur. The benefit of simultaneous elections, similar to that in the United States, is that it would limit blame-shifting between the different levels of government.

19 Prime Minister, Speech to Millennium Forum, 20 August 2007  
20 Address by Kevin Rudd MP, Don Dunstan Foundation, 14 July 2005

21 NSW Treasury, Benchmarking Australia's Intergovernmental Fiscal Arrangements (Interim Warren Report), March 2006, pg 13

22 ibid

23 Kevin Rudd MP, Budget Reply Speech, 10 May 2007



### 3 Staying competitive

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#### Taxation

There is no difference between the Federal Government and Opposition in relation to their stated taxation goals. Indeed, this will be the first election where a Federal Opposition has gone to the people with the same Taxation policy as the Government.

The Commonwealth's economic position is strong with net debt decreasing from 18.5% of GDP in 1995/6 to negative \$12 billion in 2006/07. To create a sense of proportion, if net debt levels in 2007/08 were the same as 1995/96 this would mean a debt level of \$170 billion. At the same time it should be noted that State Governments across Australia are increasing debt levels to fund significant infrastructure programs.

The Government's medium term fiscal objectives are as follows:

*"maintaining budget surpluses over the forward estimates period while growth prospects are sound; not increasing the overall tax burden from 1996-97 levels; and improving the Australian Government's net worth position over the medium to longer term... this means that the Government achieves budget balance over the cycle through a disciplined approach to spending and not by recourse to increased taxation"*<sup>24</sup>.

These objectives have also been accepted by the Opposition who are not proposing any changes to taxation. It should be noted Federal Labor has committed itself to continued Budget surpluses in the order of 1% of GDP and the Preliminary Budget Outcome for the 2006/07 Budget being \$17.3 billion or 1.7% of GDP<sup>25</sup>.

Whilst both sides of politics go into the election with clearly stated taxation policies in relation to the Federal Budget, the same clarity does not occur in relation to the GST Agreement.

NSW and Victoria however continue to express concern about the outcomes of the Commonwealth Grants Commission (CGC) in allocating the GST. The current GST formula involves nearly 400 variables and rewards inefficiencies. The NSW Government is undertaking, through IPART, a review of the GST formula and its impact on NSW<sup>26</sup>.

The CGC process of allocating the GST is clearly inefficient and needs reforming. The Federal Treasurer best summed up the complexity of the current process when he said *"The State Governments spend huge resources putting their cases to the Commonwealth Grants Commission. The Commonwealth does not even put in a submission. In fact, State Treasuries probably spend more time on this than practically anything else"*<sup>27</sup>.

The Commonwealth has consistently argued that any changes to the current GST arrangements will not occur unless there is unanimous agreement by the States. The Opposition has traditionally supported this approach, however it could be argued this has changed with the advent of the Federal Labor policy to possibly takeover public hospitals.

NSW Business Chamber has argued for an independent review to be undertaken by the Productivity Commission given its reputation for independence and rigour. The weakness of the NSW IPART Review into the GST formula is that it will be purely seen by the other States as a means by which NSW can increase its share of GST distributions. An independent review by the Productivity Commission could make recommendations regarding simplifying the application of horizontal fiscal equalisation (HFE), and identify distortions and areas of inefficiency or effectiveness.

#### Recommendation

The Productivity Commission should undertake an independent review of the GST distribution formula as a precursor to simplifying the GST agreement and removing the agreement's economic distortions.

24 Treasury, 2007/08 Budget, Budget Paper 1 – 5  
25 Hon Peter Costello MP, Media Release, 21 August 2007  
26 Hon Morris Iemma MP, Media Release, 16 August 2007  
27 AB News, Interview with the Federal Treasurer, August September 2005

### 4 Renewing economic infrastructure

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Australia has experienced sixteen consecutive years of economic growth. Sustained economic growth creates its own challenges – skill shortages, crowded trains, bottlenecks on our roads and ports. Australia is operating at near capacity.

The prosperity has put pressure on physical infrastructure – roads, energy, public transport and telecommunications. The demands of drought have created unique pressures in the management of water and land.

It was possibly because of these dangers that the Treasury Secretary has taken to reminding Australians about an editorial from the Economist which stated *"if you look at history, Australia is one of the best managers of adversity the world has seen – and the worst manager of prosperity"*<sup>28</sup>.

Australia has an infrastructure deficit. This however is not the same as poor infrastructure. As Infrastructure Partnerships Australia correctly point out, such long term economic growth could not have occurred if Australia had poor or degrading infrastructure<sup>29</sup>.

Clearly an infrastructure deficit impacts on Australia's capacity to be productive and to reduce economic blockages. The Commonwealth has particularly expressed its concern about the state of the ports throughout Australia and has threatened a Federal Government takeover of the ports<sup>30</sup>. All areas of infrastructure, except broadband, are areas within State control (eg roads, public transport, water utilities, electricity, education, ports etc).

The States however argue that even with the largest infrastructure program on record (for example NSW has an infrastructure program of \$50 billion over the forward estimates), they need additional support from the Commonwealth to meet increasing needs for infrastructure and services.

The truth is that *"without functional relationships between Commonwealth and state governments, the abundance of investment capital for infrastructure will count for very little in helping to meet community expectations"*<sup>31</sup>.

#### Recommendation

The Commonwealth should appoint a Federal Minister for Infrastructure who will be responsible for working with the States and Territories to develop a National Infrastructure Plan. This approach should improve national infrastructure coordination, planning and forecasting mechanisms.

28 Ken Henry, Address "Managing Prosperity", 2 November 2006  
29 Infrastructure Partnerships Australia, Australia's Infrastructure Priorities: Securing Our Prosperity, 2007  
30 Hon John Howard MP, Media Release "Regulation of Ports", 19 August 2007  
31 Infrastructure Partnerships Australia, Australia's Infrastructure Priorities: Securing our Prosperity", pg 7



## 5 Preparing for Climate Change

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Responding to global warming will be one of the great policy challenges facing all governments in coming years.

The world is warming and this will have implications for our ecosystem starting with the availability of a reliable and sustainable water supply, crop yields and eventually, the very shape of global coastlines and human health.

Whilst estimates about the extent of global warming are varied, there is little doubt it will become an escalating cost to the world economy over coming decades.

The Stern Report, commissioned by the UK Treasury, argues that society must treat the costs associated in mitigating global warming as a longer term investment in the sustainability of modern economies.

**“Mitigation – taking strong action to reduce emissions – must be viewed as an investment, a cost incurred now and in the coming few decades to avoid the risks of very severe consequences in the future.... The benefits of strong, early action considerably outweigh the costs”<sup>32</sup>.**

Data from the World Resources Institute Climate Indicators Tool (CAIT) indicates that 68% of all emissions relate to what could be called “economic emissions”, namely 24% power, 14% industry 14% transport, 8% buildings and 5% other energy emissions<sup>33</sup>. This reflects the fact that CO2 emissions per head are strongly correlated with GDP per head.

This is significant because statistically Australia has one of the highest emissions per capita, and if structural changes are not made in the economy our prosperity will forever be linked to these emissions.

### Taking Global Leadership

Individually Australia can do little to physically reduce the existence of carbon in the global atmosphere because even a 60% reduction of 1.6% of global emissions is a global reduction of less than one percent, which will not avoid dangerous climate change. Furthermore, there is literally nothing that can be done by one State to improve the global problem of climate change.

Despite this, Australia can make a significant contribution to the climate change challenge through its use of global institutions and national leadership. Unfortunately the current Federal-State relationship is limiting meaningful action and limiting Australia’s opportunity to benefit from the emerging climate boom.

To use global institutions and make a meaningful contribution to the global climate change challenge, the Federal Government must take leadership to decouple our economic success and prosperity from future emissions growth. This will send a powerful message globally, provide a road map for developing nations to achieve the same outcomes, and stimulate economic activity that can future-proof the Australian economy.

Federal Government leadership, instead of small scale State Government initiatives, would be most effective by

- > implementing coordinated and straightforward market mechanisms that appropriately internalise the cost of carbon emissions (ie an emissions trading scheme)
- > developing simple complementary policy measures and incentives that promote long-term investment, research and development in climate change solutions (ie accelerated depreciation), and
- > creating far-reaching education programs for business and consumers that outline the benefits of decoupling economic prosperity from emissions growth and practical measures to achieve this (ie climate change is not a threat to our livelihood, but an opportunity).

The problems that have emerged from the current Federal-State relationship include

- > the development of a National Emissions Trading Scheme by State Governments that may be ignored by the Commonwealth because it was ‘created by the States’
- > multiple reduction targets and legislative requirements that increase costs for businesses operating across different States
- > different regulatory structures targeting similar, yet different aspects of carbon emissions, causing the emergence of “green tape” and creating perverse, and often contradictory and environmentally harmful outcomes.
- > the piecemeal distribution of government funding and incentives that results in many climate change initiatives being started, but many of them not having enough funding for successful development through to venture capital funding or commercialisation.

### Climate Change Regulation

Improving Federal-State relations will increase Australia’s ability to contribute meaningfully to the climate change challenge, but more significantly for the economy and business, will reduce the impact of “green tape”.

Recent research by NSW Business Chamber has shown that Australian businesses face up to five layers of environmental regulation – international law, national law, state law, local councils and the judiciary – and this has produced a dramatic increase in areas and types of environmental actions needed to be taken by business.

“Green tape” over the next twenty years is expected to be as significant to the profitability and competitiveness of business, as “red tape” has been over the past twenty years.

Left unchecked, the desire to improve climate outcomes will make “green tape” a major issue for businesses in coming years with the size and scope of regulation from all layers of government increasing.

An uncoordinated, ad hoc approach to this issue by governments could diminish the goodwill of businesses wanting to improve emissions processes and also result in Australia losing competitive advantage in key industries.

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It could also result in differing levels of government releasing conflicting and overlapping legislation and thereby repeating some of the lessons of the “red tape” experience of recent decades.

In conclusion, the climate change challenge is both the biggest opportunity and challenge for Australian governments. Success will come from a cooperative relationship between the Federal and State Governments that minimises “green tape” and maximises the economic opportunities of cleaner development, alternative energy and global leadership.

### Recommendation

The Federal Government should accept the leadership position of developing the policy framework to deal with climate change and both levels of government should implement policies in a coordinated and complementary way.

<sup>32</sup> UK Treasury, Stern Report, Executive Summary, 2006

<sup>33</sup> www.wri.org



# Australian Business Priorities Survey

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How many persons (including owner-managers, partners, full-time, part-time, casuals, etc.) are employed by your business?

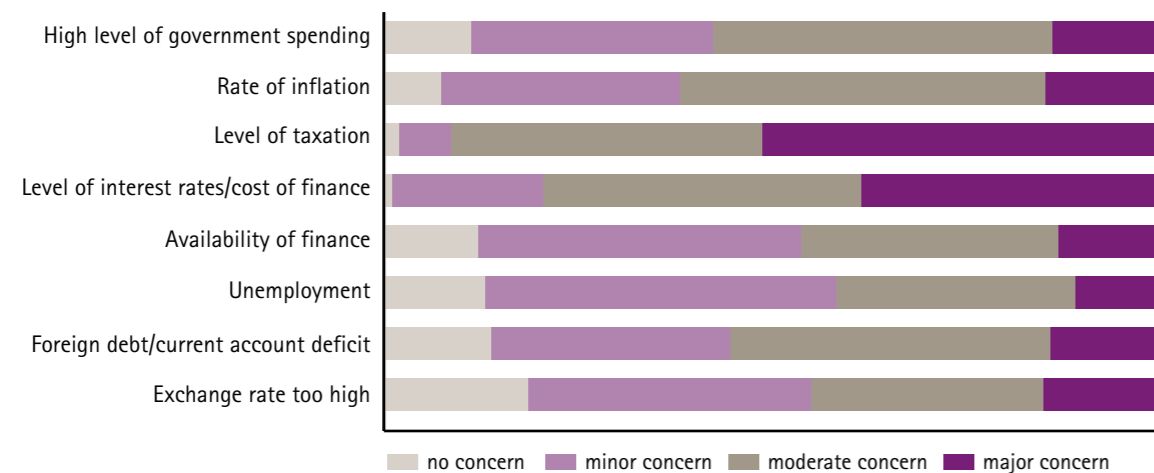
	response
Less than 20	56%
20 – 99	30%
100 – 999	11%
1000+	3%

Does your business export?

	response
Yes	24%
No	76%

In thinking about Australia's current economic situation, how concerned are you at the present time about each of the following matters?

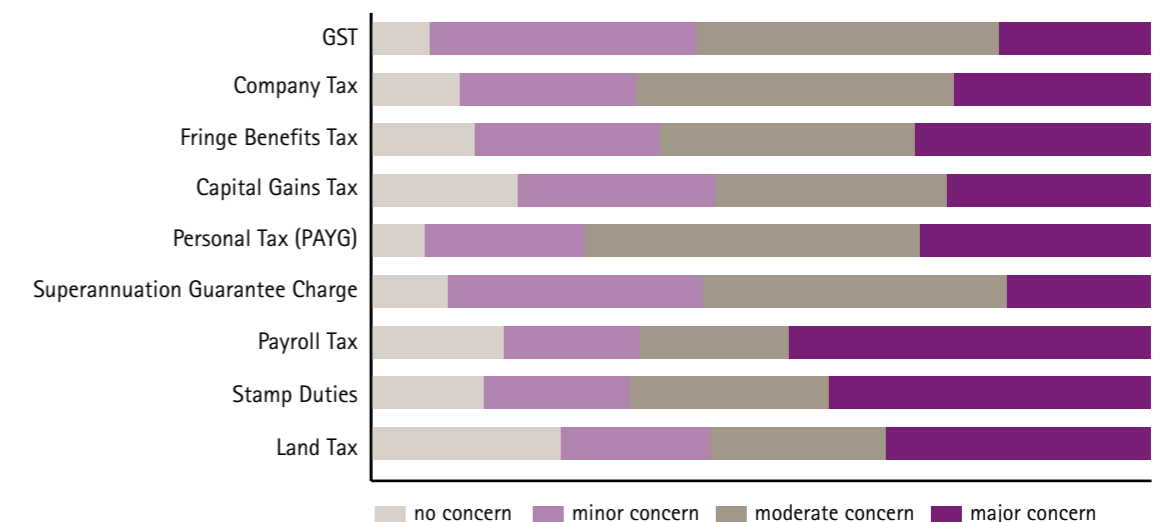
	no concern	minor concern	moderate concern	major concern
High level of government spending	12%	31%	43%	14%
Rate of inflation	7%	31%	47%	15%
Level of taxation	2%	7%	40%	51%
Level of interest rates/cost of finance	1%	19%	41%	39%
Availability of finance	13%	41%	33%	13%
Unemployment	13%	45%	31%	11%
Foreign debt/current account deficit	14%	31%	41%	14%
Exchange rate too high	19%	36%	30%	15%



> 15

In the context of your own business to what extent are each of the following taxation matters a cause for concern at the present time?

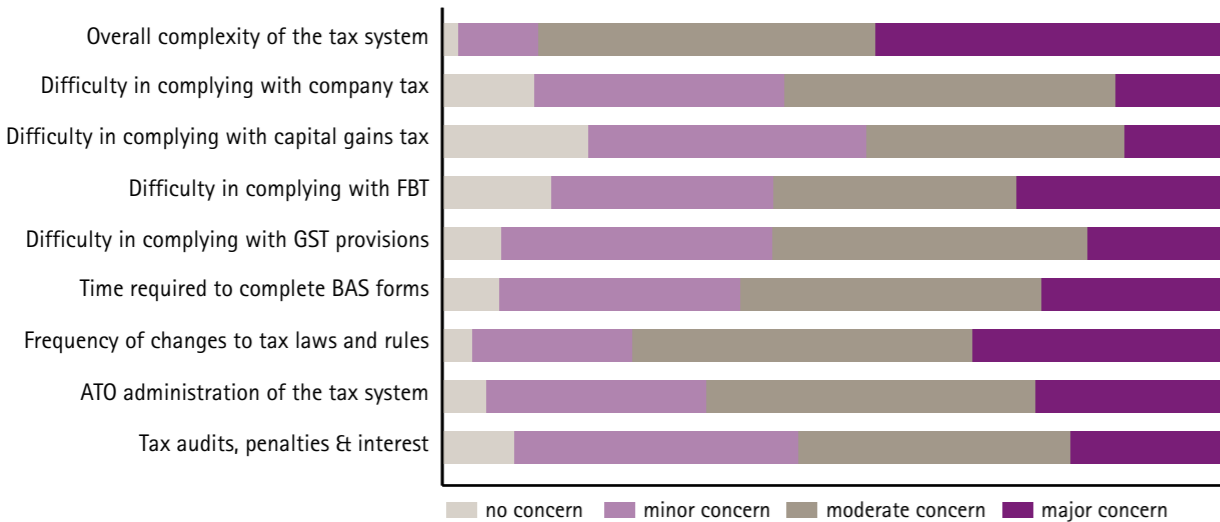
	no concern	minor concern	moderate concern	major concern
GST	8%	34%	39%	19%
Company Tax	11%	23%	41%	25%
Fringe Benefits Tax	13%	24%	33%	30%
Capital Gains Tax	19%	25%	30%	26%
Personal Tax (PAYG)	6%	21%	43%	30%
Superannuation Guarantee Charge	10%	33%	39%	18%
Payroll Tax	18%	17%	19%	46%
Stamp Duties	15%	19%	25%	41%
Land Tax	25%	19%	22%	34%





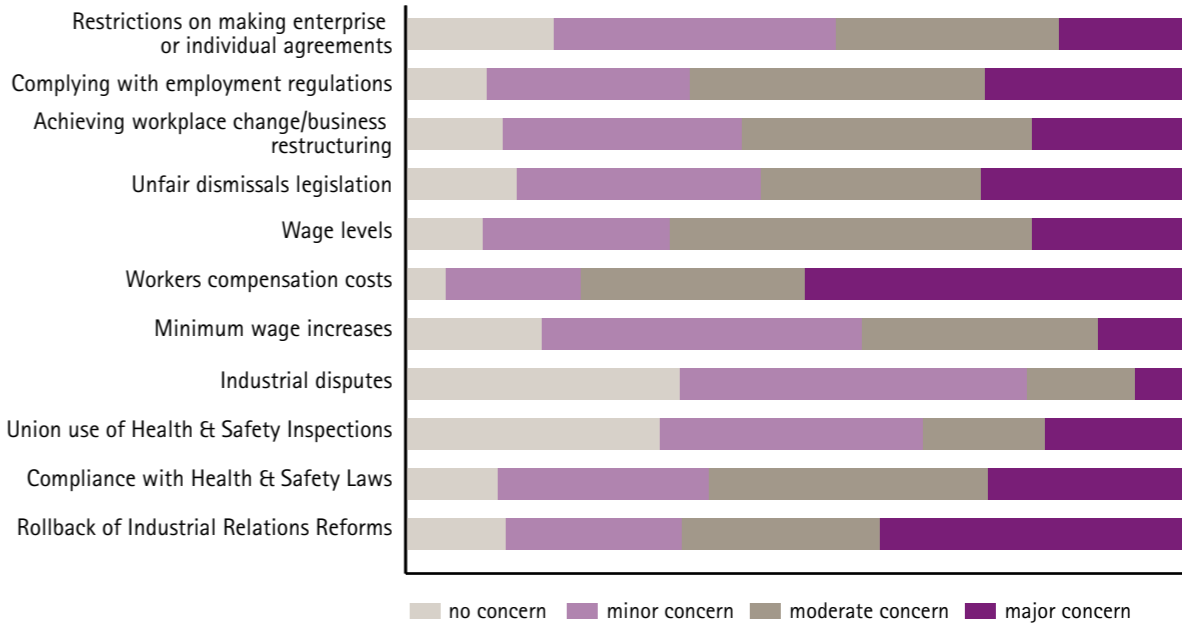
**In the context of your own business to what extent are each of the following compliance measures with the tax system a cause for concern at the present time?**

	no concern	minor concern	moderate concern	major concern
Overall complexity of the tax system	3%	10%	43%	44%
Difficulty in complying with company tax	11%	32%	43%	14%
Difficulty in complying with capital gains tax	18%	36%	33%	13%
Difficulty in complying with FBT	14%	29%	31%	26%
Difficulty in complying with GST provisions	8%	35%	40%	17%
Time required to complete BAS forms	7%	31%	39%	23%
Frequency of changes to tax laws and rules	3%	21%	44%	32%
ATO administration of the tax system	6%	28%	42%	24%
Tax audits, penalties & interest	9%	37%	35%	19%



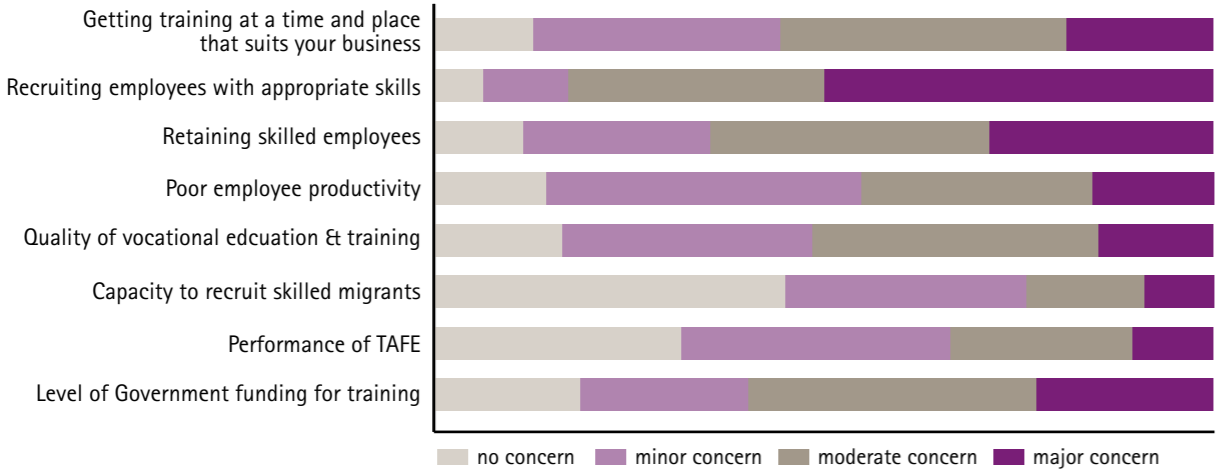
**In the context of your own business to what extent are the following industrial relations and employee matters a cause for concern at the present time?**

	no concern	minor concern	moderate concern	major concern
Restrictions on making enterprise or individual agreements	19%	36%	29%	16%
Complying with employment regulations	10%	26%	38%	26%
Achieving workplace change/business restructuring	12%	31%	37%	20%
Unfair dismissals legislation	15%	31%	28%	26%
Wage levels	10%	24%	46%	20%
Workers compensation costs	5%	17%	29%	49%
Minimum wage increases	18%	41%	30%	11%
Industrial disputes	36%	44%	14%	6%
Union use of Health & Safety Inspections	32%	34%	16%	18%
Compliance with Health & Safety Laws	12%	27%	36%	25%
Rollback of Industrial Relations Reforms	14%	22%	25%	39%



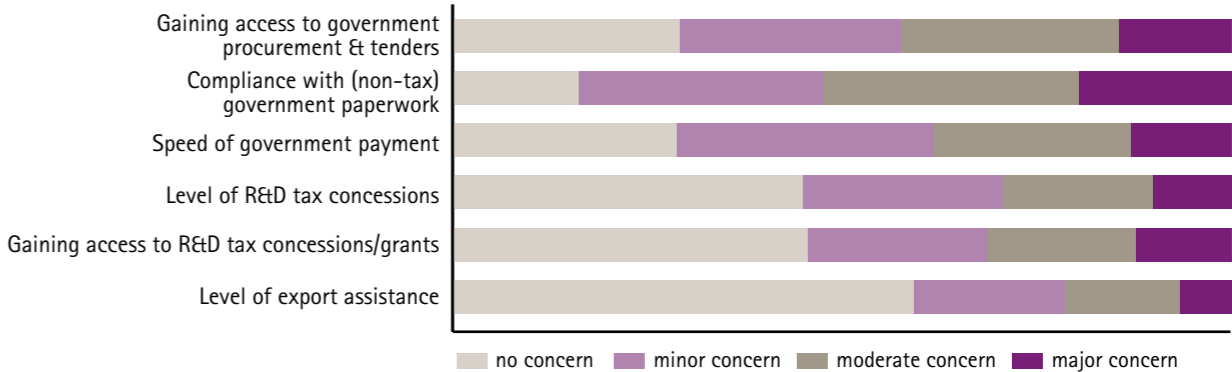
In the context of your own business to what extent are the following skills development and training matters a cause for concern at the present time?

	no concern	minor concern	moderate concern	major concern
Getting training at a time and place that suits your business	12%	32%	37%	19%
Recruiting employees with appropriate skills	6%	11%	33%	50%
Retaining skilled employees	11%	24%	36%	29%
Poor employee productivity	14%	40%	30%	16%
Quality of vocational education & training	16%	32%	37%	15%
Capacity to recruit skilled migrants	45%	31%	15%	9%
Performance of TAFE	32%	35%	23%	10%
Level of Government funding for training	18%	22%	37%	23%



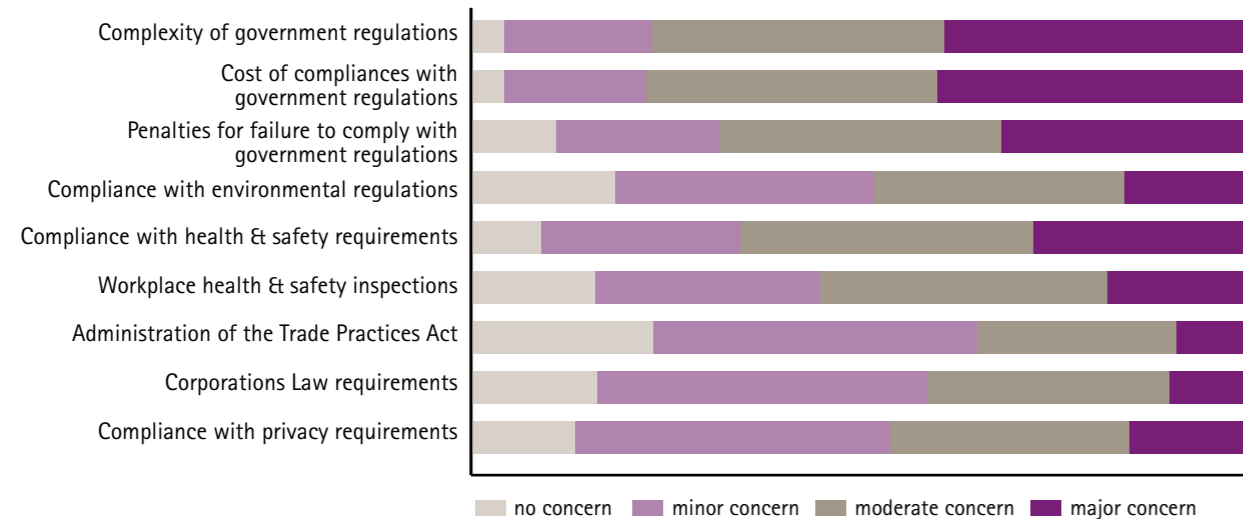
In the context of your own business to what extent are the following issues relating to dealing with government a cause for concern at the present time?

	no concern	minor concern	moderate concern	major concern
Gaining access to government procurement & tenders	30%	28%	28%	14%
Compliance with (non-tax) government paperwork	16%	31%	33%	20%
Speed of government payment	29%	33%	25%	13%
Level of R&D tax concessions	45%	26%	19%	10%
Gaining access to R&D tax concessions/grants	46%	23%	19%	12%
Level of export assistance	59%	19%	15%	7%



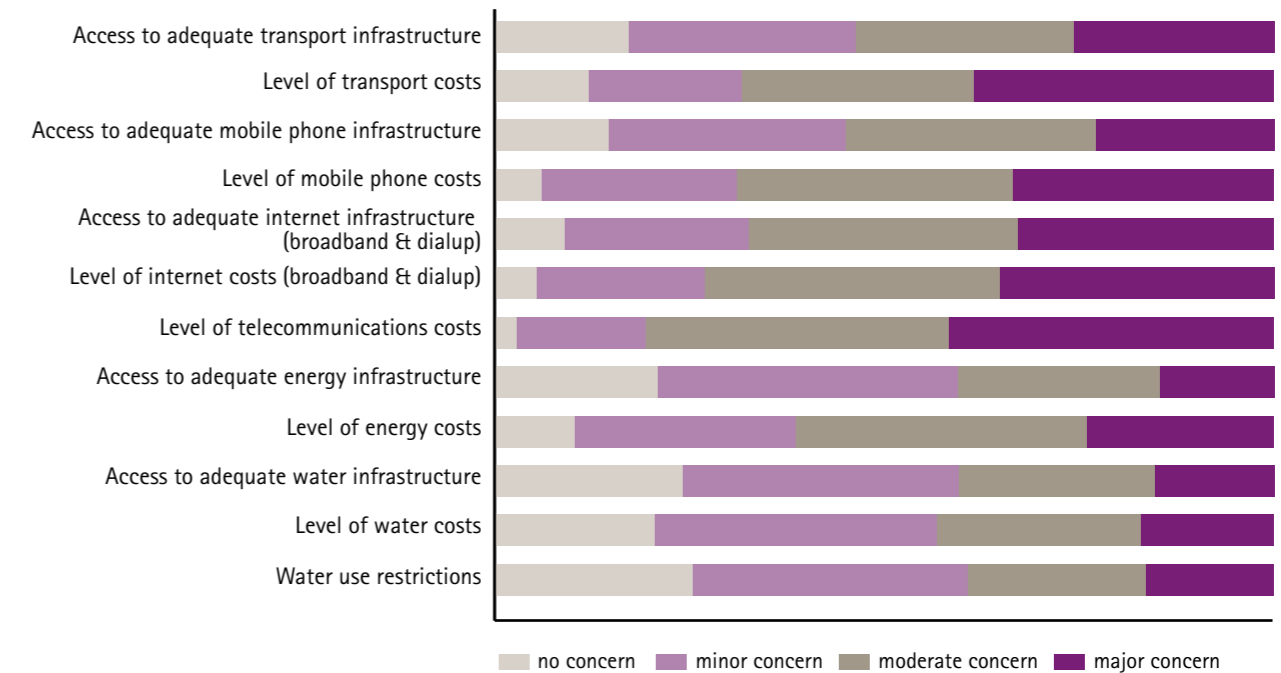
**In the context of your own business, to what extent are the following matters relating to government regulation a cause for concern at the present time?**

	no concern	minor concern	moderate concern	major concern
Complexity of government regulations	5%	19%	37%	39%
Cost of compliances with government regulations	5%	18%	37%	40%
Penalties for failure to comply with government regulations	11%	21%	36%	32%
Compliance with environmental regulations	19%	33%	32%	16%
Compliance with health & safety requirements	9%	25%	38%	28%
Workplace health & safety inspections	16%	29%	37%	18%
Administration of the Trade Practices Act	23%	42%	25%	10%
Corporations Law requirements	17%	42%	31%	10%
Compliance with privacy requirements	13%	40%	31%	16%



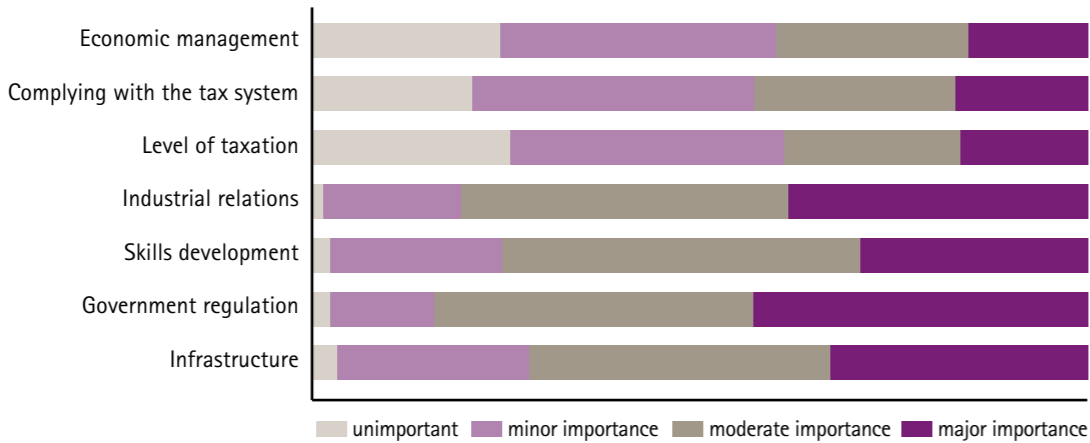
**In the context of your own business, to what extent are the following infrastructure issues a cause for concern at the present time?**

	no concern	minor concern	moderate concern	major concern
Access to adequate transport infrastructure	17%	29%	28%	26%
Level of transport costs	12%	20%	30%	38%
Access to adequate mobile phone infrastructure	15%	30%	32%	23%
Level of mobile phone costs	7%	25%	35%	33%
Access to adequate internet infrastructure (broadband & dialup)	8%	24%	35%	33%
Level of internet costs (broadband & dialup)	5%	22%	38%	35%
Level of telecommunications costs	2%	17%	39%	42%
Access to adequate energy infrastructure	21%	38%	26%	15%
Level of energy costs	11%	28%	37%	24%
Access to adequate water infrastructure	25%	35%	25%	15%
Level of water costs	21%	36%	26%	17%
Water use restrictions	26%	35%	23%	16%



The following is a summary list of the issues raised in this survey. Please indicate how important improvement in each of these areas would be to the successful operation of your own business.

	unimportant	minor importance	moderate importance	major importance
Economic management	25%	35%	25%	15%
Complying with the tax system	21%	36%	26%	17%
Level of taxation	27%	35%	22%	16%
Industrial relations	2%	18%	42%	38%
Skills development	3%	22%	46%	29%
Government regulation	3%	13%	41%	43%
Infrastructure	3%	25%	39%	33%





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# **FOOD REGULATION REVIEW SUBMISSION**

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## **EXECUTIVE SUMMARY and KEY RECOMMENDATIONS**

The competitiveness of the Australian food industry is critical to the long-term well-being of the Australian economy. The nature of the food industry suggests that regulatory requirements are, more than anywhere else, of the utmost importance. Food and beverages are products that the community consume every day. Small lapses in quality in areas such as hygiene, labelling or packaging can therefore have an adverse or even dangerous effect on many consumers. Poor quality in a minority of firms can also tarnish the reputation and profitability of a multitude of competitors.

However the importance of food to consumers does not end with safety concerns. A large percentage of consumption expenditure is devoted to food and beverages, thereby making price a chief concern. When calculating the Consumer Price Index (CPI) the Australian Bureau of Statistics allocates food and drink a weighting of over 23%, an indication of its importance in the everyday expenditures of Australians.

In a highly competitive industry such as food and beverages, price of course must eventually be a function of production cost. This submission shows that regulatory compliance imposes a significant cost burden on firms in the industry. No-one pretends for a moment that the majority of these regulations are not performing a well intended function. However, there are certainly a number of ways in which regulations can be streamlined and simplified. Overall, these improvements will increase productivity within firms and lead to reduced inflationary pressures across the board.

*Australian Business'* main recommendations arising from this study may be summarised as follows:

*A significant number of Australian firms appear to be postponing the decision to export as a result of the monetary and time costs imposed by regulatory compliance.*

*Opportunities for reducing the burden of regulatory compliance in the industry appear to be greatest at the federal level. Increases in regulation at the federal level can only be justified if it forms part of an attempt to consolidate all regulatory requirements at the one level of government.*

*In the area of health and safety, some firms are reporting that regulations and inspections are too onerous. However there are some firms that are finding the opposite to be true. This suggests that there is at least some scope for the reallocation of regulation between the three tiers of government where duplication is causing concern.*

*In some cases, regulatory compliance costs need only fall by a small amount for Australian exporters to enjoy a much greater market share or for Australian firms to mount new export campaigns.*

*Evidence of regulatory duplication, although not rife, adds significantly to business costs where it occurs. All firms noting that they have experienced duplication report that regulation imposes moderate or significant costs.*

*The areas of waste discharge and food hygiene appear to be of particular concern to a number of food industry members. The concept of 'hygiene' requires further exploration. The Review Committee may consider looking at this in more detail, (ie refrigeration, transport/loading, dockhandling, partially cooked foods and smallgoods products).*

*There appears to be scope for greater use of self-regulatory or co-regulatory regimes in the industry.*

*This survey has identified a need for the greater promotion and take-up of training. Short, inexpensive external training courses will be of most benefit in the area of food handling and preparation education.*

*Presently, it cannot be stated whether Quality Assurance programs aid or hinder a firm's compliance procedures. It is likely that some aspects of the more popular QA systems do not fit well in the food industry. This is perhaps worthy of further scrutiny by the Review Committee. For many smaller firms, the up-front costs (both monetary and time) of introducing a full QA system, are highly prohibitive. Our observation is that it is the practice rather than the principle of QA that causes difficulties in some firms.*

*Government should consider making an effort to lower the regulatory compliance requirements for firms that have approved QA systems. Australian Business sees the use of QA as a 'way of the future' in terms of adhering to minimum industry standards without the need for onerous public sector intervention.*



## INTRODUCTION

The importance of the food industry to Australia is significant. In total value, the industry accounts for approximately \$57 billion. Food processing is one of Australia's largest manufacturing industries and export earnings from food and beverage products totalled \$17.1 billion in 1996/97.

Export markets are where the food industry's greatest contribution to future growth are likely to be found. It is therefore critical that our national food regulatory system displays world's best practice so that our industry's competitiveness is not impeded.

The Australian Government's intention to review the food industry emerged originally from the Small Business Deregulation Task Force's key findings and recommendations published in the report entitled *Time for Business*.

The primary recommendation governing food which was made in that report, was "that a comprehensive program for reviewing the regulatory burden imposed on the food industry and of the surveillance and enforcement roles and responsibilities of the various spheres of government be undertaken. The terms of reference to include regulation reform, enforcement and compliance, packaging and labelling, inspection of food premises and standards setting". The Government subsequently announced that it had agreed with the recommendations and that Dr Bill Blair would Chair the Review.

*Australian Business*, in its 1997 report, "Blueprint for Growth" identified that:

"There has been a tendency for business regulations to increase over time, often without due consideration of their impact on business costs. This applies both to the ever widening scope of regulations and to requirements for compliance which impose unnecessary costs on business.

*Australian Business* supports the actions proposed in 'More Time for Business' - the Government's response to the recommendations of the Small Business deregulation Task Force. The rapid and consistent implementation of these recommendations will contribute to improved business profitability, with benefits for economic growth and jobs".

Lastly, this submission focuses on the results of the survey of *Australian Business*' food industry membership. We intend however, to follow-up on these results by conducting a Food Forum to be held at our premises in North Sydney, where food industry members can contribute further to the work of the Review as well as to a better understanding of their industry.

## THE SURVEY

To assist the Review in its understanding of the issues, *Australian Business* undertook a comprehensive survey of its members. The survey participants were drawn from *Australian Business's* broadly based membership in the food sector. The food industry is one of the largest cohorts making up the membership of *Australian Business*. At the time of writing this submission our food members totalled 370 and made up approximately 9.6% of our members.

Each of the members had a copy of the survey mailed or faxed to them with a covering letter advising them of the reasons why the survey was being undertaken. 136 people responded which is 36.8% of the targeted food industry membership. In keeping with *Australian Business's* desire to be at the leading edge in technology, a copy of the questionnaire was made available on the *Australian Business On-Line* Internet site.

Questions contained in the survey were designed to address the main points raised in the Issues Paper.

A copy of the questionnaire can be found in the Appendix.

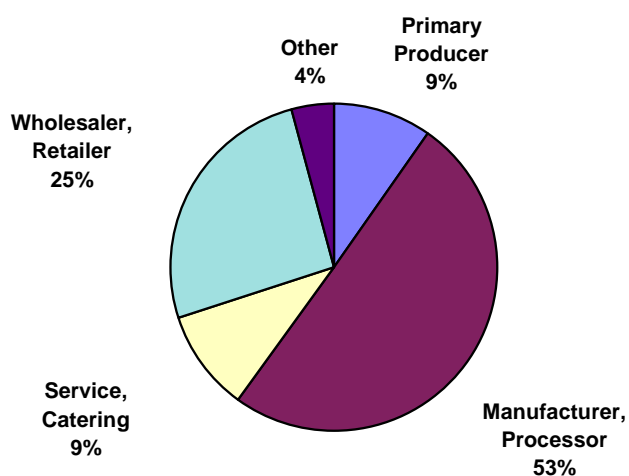
## FINDINGS

### *Breadth of operations in the food industry*

The first question which respondents were asked was how would they describe their operations. This question was included to identify the range of industry sectors which would be covered by this survey. It was also thought to be useful if individual industry sectors could be matched up with other questions covered by the survey and which dealt with various forms of regulation.

The majority of respondents claimed they were a manufacturer/processor (53%). This was followed by wholesaler/retailer (25%). The remaining two categories of primary production and service/catering made up nine percent each. The category of “other” made up only four percent.

### Respondents by Operation

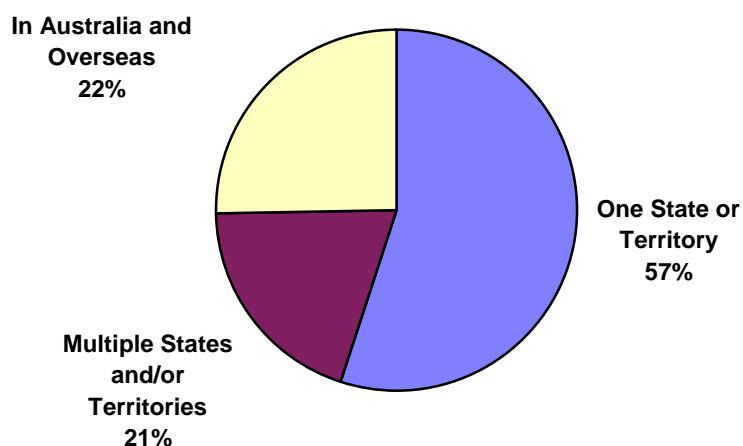


## ***Location***

Respondents were asked to identify where their operations were conducted. This question was designed to track if there were heavy concentrations of the industry located in particular regions or overseas and whether location was a factor in their attitude to regulation. It also provided a good idea of the various mix of locations that companies utilised to carry out their food operations.

More than half of the companies surveyed claimed that their operations were concentrated in one state or territory (57%). Just under one quarter (22%) of respondents claimed that their operations were undertaken in a mix of States and Territories whilst the remaining twenty one percent were operating in both Australia and overseas.

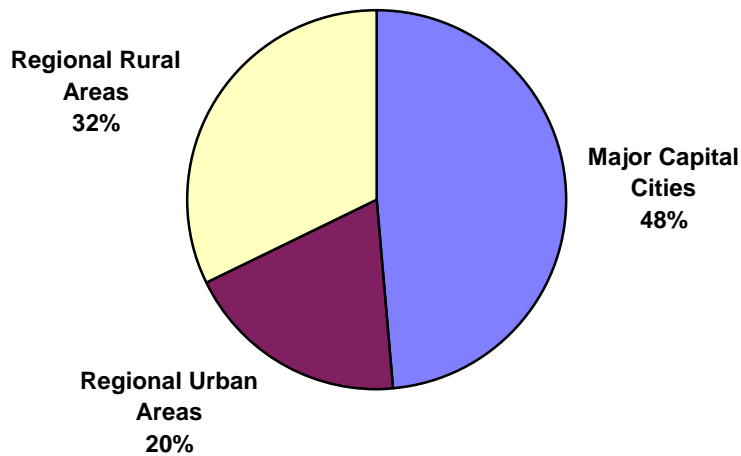
### **Location of Operations**



### ***Where in Australia?***

As a follow on from the question on location, respondents who were operating from Australia, were asked to select one of three locations where their operations were conducted. The response to this question indicated a strong presence in major capital cities (48%). Regional rural areas followed (32%) and regional urban areas comprised 20% of the sample.

### **Location of Operations - Australia**



### ***Food products or services covered by this survey***

All respondents were asked to describe the major products or services they provided. This question was included to consider the type of food industries which were represented in the survey. It was thought that the response to this question would assist in understanding the responses to other questions when cross referenced.

The actual breakup into industry sectors of the different food groups had unclassifiable growers/processors in the majority (29.0%). Other sectors had fairly even proportions of representation. Some of the other main groups were: beverages (14%), fruit and vegetables (10.7%), flour and cereal (10.7%), baking (9.9%) and dairy (8.3%).

Clearly, many businesses in the food industry conduct quite diversified operations and produce multiple goods and services, hence making them difficult to classify. This explains why 'Other (Growing/Processing)' makes up such a large proportion of the sample.

<b>GROUP</b>	<b>Percentage</b>
Meat	7.4
Dairy	8.3
Fruit & Vegetables	10.7
Oil & Fat	3.3
Flour & Cereal	10.7
Baking	9.9
Beverages	14.0
Other (Growing / Processing)	29.0
Other (Retail / Distribution / Service)	6.6
<b>TOTAL</b>	<b>99.8</b>

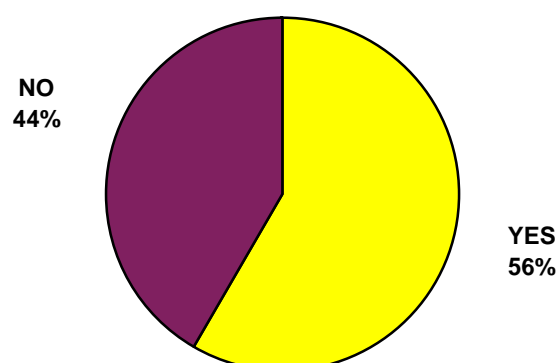
NB. figures do not add to 100% due to rounding.

## ***Export***

Because the *Issues Paper* emphasised the importance of export markets for Australia's food industry, this question was considered necessary to identify the level of export activity currently occurring.

The results indicate that well over half of the respondents have embarked on an export program. Exporters, have to deal with customs and other trade laws in multiple countries (in addition to the usual food regulations). It is therefore likely that exporters are devoting an especially large portion of their resources to regulation compliance. As consumers of food products are particularly price sensitive, it is crucial that every link in the production chain be operating at international best practice levels. Furthermore, it may be the case that prospective exporters are deterred by the time and expense involved in mounting an export campaign.

### **Does Your Firm Export?**



## ***Difficulties created by regulation in the export market***

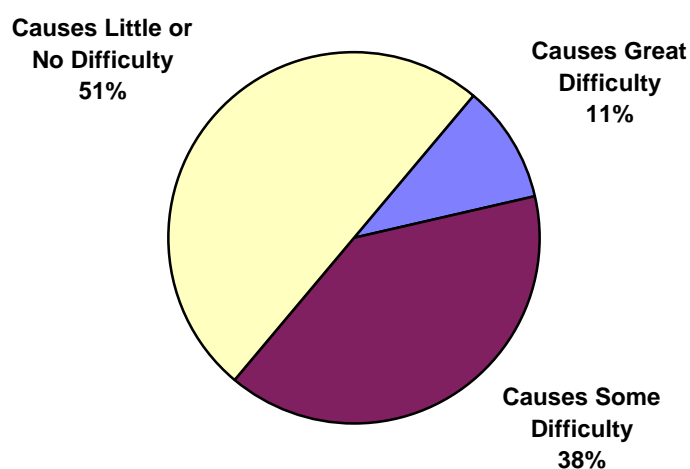
The *Issues Paper* also quoted the first meeting of the ‘Supermarkets to Asia Council’ which had noted the need to reduce the cost of regulation in the food industry. We therefore posed a question which was an attempt to identify how seriously government regulation restricts export opportunities.

The results show that eleven percent of respondents claim that the current level of government regulation causes great difficulty, while a further thirty eight percent of respondents indicate that current government regulation is causing some difficulty with their ability to export their products. In total, nearly half the respondents surveyed indicated that regulation was either causing great difficulty or some degree of difficulty when attempting to export.

Significantly, equal proportions of exporters and non-exporters indicated that government regulation was causing some or great difficulty in terms of international trade. This suggests that there are a significant number of firms in the food industry that would like to engage in trade activities but are finding the current regulatory system prevents them from doing so.

These findings provide support to those commentators, such as the ‘Supermarkets to Asia Council’, who claim that the regulatory environment is not conducive for companies who want to export food products from Australia.

### **How Government Regulation Affects Exporting Activity**





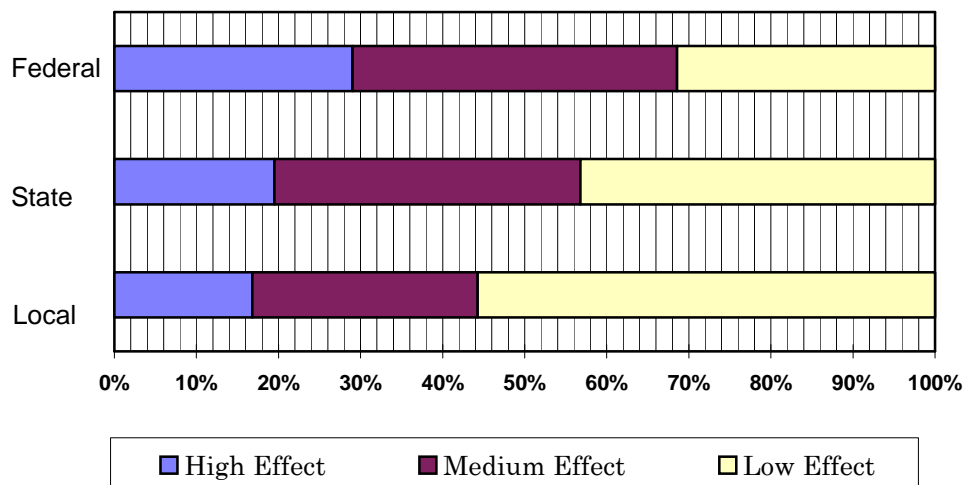
### *The three tiers of government*

Respondents were asked to indicate which level of government regulation (local, state or Federal) had the greatest impact upon their business.

The response indicated that the majority of those surveyed were affected mostly by Federal government regulation. Almost a third (29%) of respondents claimed that Federal government regulation had a high effect. For State level regulation this figure fell to 19.5%. Local government had a high effect on only 16.8% of respondents.

The fact that problems were experienced at all levels of government indicates that attempts to reduce regulatory burden must be done in a coordinated, if not necessarily uniform, manner.

**Effect of Government Regulations**



## ***Is compliance with government health and safety regulations too onerous?***

*Australian Business* agrees that the primary objective of food regulation must be the protection of public health and safety. It is when other objectives such as consumer deception, are introduced, that real problems arise.

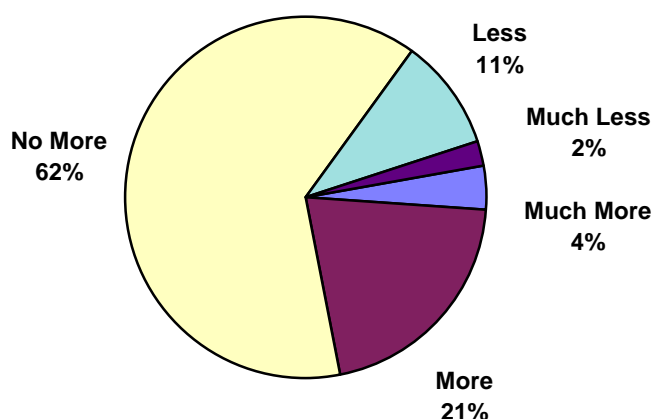
Respondents were asked to indicate whether the level of compliance, to protect public health and safety, was much more than necessary; much less than necessary or something in-between.

One in four respondents were of the opinion that the level of compliance was in fact more or much more than was necessary to protect public health and safety.

On the other hand, 62% of the respondents indicated that the regulations were no more than was necessary, and a further 13% suggested that the regulations were not tough enough to protect public health and safety.

Firms in food service and catering appear to have the most problems with health and safety regulations. Less than half claim that the current requirements are at the appropriate level while 26% and 27% respectively claim that the requirement are too lax or too onerous.

### **Health and Safety Requirements ... Than Necessary**

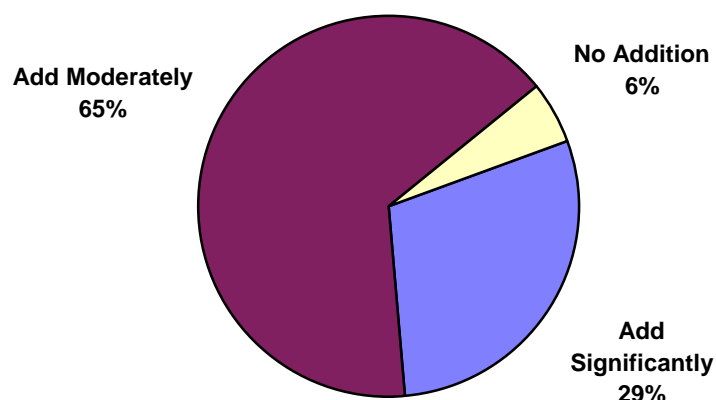


## ***Does regulation in the food industry add to the cost of doing business?***

Respondents were asked to indicate how much the costs of compliance added to their company's costs of doing business. Almost one third (29%) of respondents claimed that compliance with regulation added significantly to the cost of doing business. Another two thirds (65%) of respondents indicated that the effect of compliance with the regulations added moderately to the costs of doing business. Together these percentages indicate that a total of 94% respondents are experiencing additional cost in doing business due to regulation in the food industry.

Firms in the food service or catering industry reported a slightly higher incidence of significant cost burden as a result of regulatory compliance, (47% stated that regulations had added significantly to company costs).

### **Effect of Regulation Compliance Upon Your Firm's Costs**



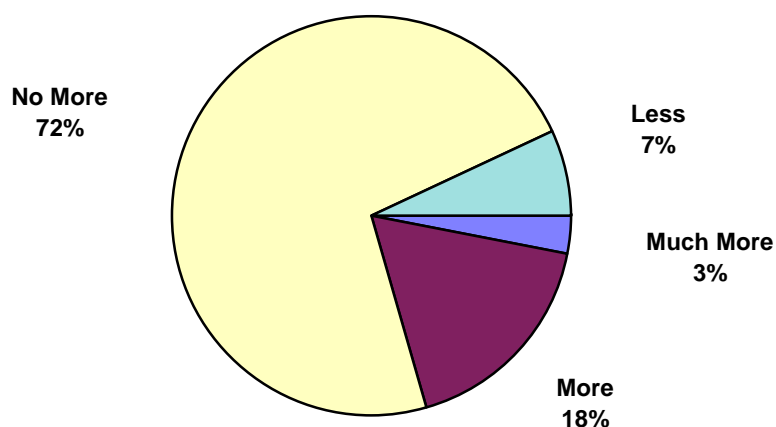
The food industry of course is extremely competitive, both domestically and internationally. This has led to many firms attempting to differentiate their products or find market niches. However, even on differentiated food products and services, demand is highly sensitive to changes in price as consumers can easily switch from one brand to another. Australian firms can therefore obtain significant benefits from even small cost reductions in areas such as regulatory compliance.

## *Health audit inspections*

In relation to health audit inspections, respondents were asked to indicate whether these were much more than necessary; less than was necessary, or somewhere in-between.

Twenty one percent of respondents were of the opinion that compulsory audit inspections were either much more (3%) or more (18%) frequent than was necessary. By contrast, 7% of firms felt that health audit inspections needed to be more frequent. Overall, it would appear that the frequency and timing of health inspections audits is appropriate.

### **Compulsory Audit Inspection Levels ... Than Necessary**



## ***Duplication of regulatory requirements amongst more than one regulatory authority***

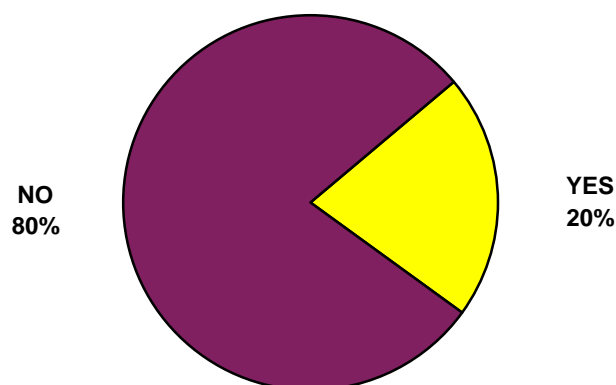
As the food industry is subject to regulation and enforcement under three levels of government, duplication of regulatory requirements has been considered a major impediment to businesses. Therefore this question was thought to be an important one in understanding where the problems encountered by businesses arose.

Eighty percent of respondents claimed to have not encountered duplication of regulatory requirements. The remaining 20% made a contrary claim and were able to give examples.

Those who commented on their experiences expressed concern with their dealings with the three tiers of government. Chief amongst these concerns were that health inspectors have different interpretations of the regulations and that there are differing requirements between local, state and federal governments. Other examples where respondents had encountered duplication of regulatory requirements included:

- \* Meat Industry Authority in conflict with the local health department;
- \* ACCC, ANZFA and AQIS in conflict with each other and other regulatory bodies;
- \* multiple audit inspections
- \* multiple regulations for goods transport and also hazardous goods labelling;
- \* Australian Meat & Livestock Corporation in conflict with the Department of Agriculture.

### **Encountered Regulatory Duplication ?**



All of the people answering YES to this question, noted that they were experiencing moderate or significant costs as a result of regulation (question 9). We can therefore infer that duplication of requirements is especially costly for a significant number of businesses.

## *Measuring the problems in different regulatory regimes*

The level of difficulty encountered by respondents in fulfilling their regulatory obligations varied widely between the specific areas of regulation.

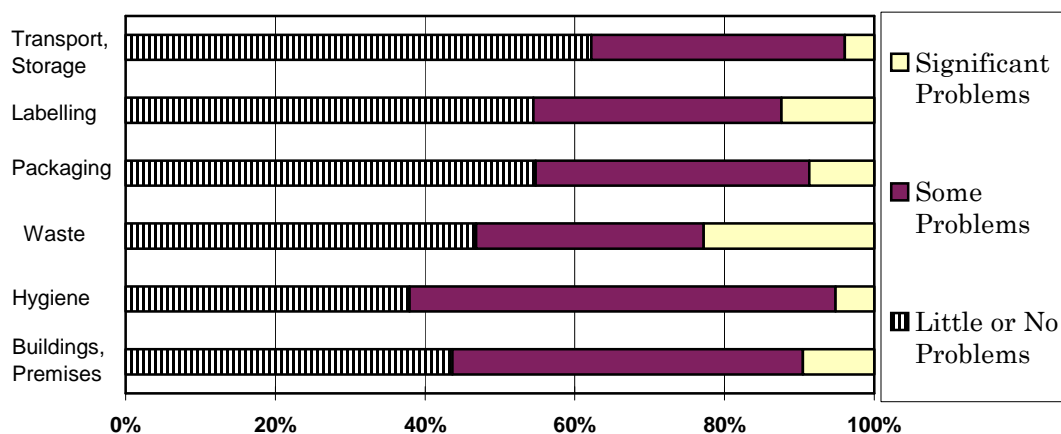
One of the main areas of concern was waste discharge with 23% of respondents citing significant problems and another 30% reporting some problems. This is one area where multiple regulations at different levels of government appear to be a problem. Local, State and Federal governments all have schemes and bodies designed to lower waste such as: Regional Waste Boards, Industry Waste Reduction Plans and the Australia and New Zealand Environment Conservation Council.

Overall, the regulatory regime governing transport and storage posed the fewest problems across all industry groups.

Food hygiene, despite not rating highly as a significant problem, posed some problems for 57% of the respondents, the largest overall 'problem' response.

Labelling, packaging and buildings and premises all returned similar results with significant problems being recorded in 12.4%, 8.7% and 9.5% of the sample for the respective questions.

### Areas of Regulation



In general, the results for each of these areas of regulation were consistent across the various industry groups. However, a couple of points are worth noting:

- in terms of waste discharge, primary producers and manufacturers/processors have a much higher tendency to report some problems or significant problems;
- in the area of food hygiene; caterers and food service companies (and to a slightly lesser extent, primary producers) are more likely to report problems with regulatory compliance.

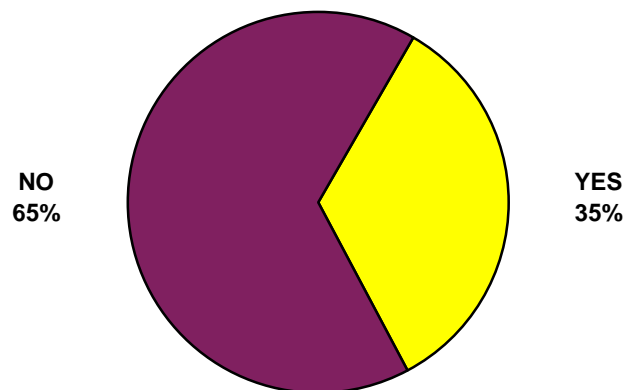
### ***Self regulatory schemes***

Respondents were asked to indicate whether or not they had participated in any scheme which either fully or partially involved self regulation.

None of the respondents reported that they had participated in any form of industry administered self regulation. This suggests either a bias in the sample or that this form of regulation is largely untried or unsuccessful in New South Wales, or a lack of awareness of industry codes.

When asked about co-regulation with a government agency, 35% of the sample replied that they had been involved in such a scheme.

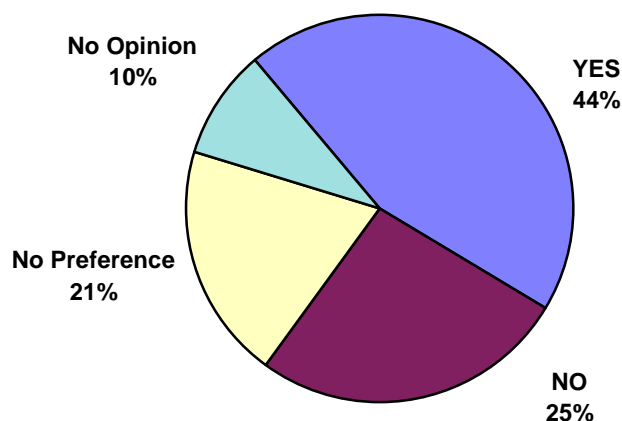
### **Involved in Government Agency Co-regulation?**



## *Support for self regulation*

The survey asked respondents to indicate whether they thought self-regulation was a preferable alternative to government regulation. A large proportion of respondents indicated that they considered self-regulation to be preferable (44%). One quarter of respondents did not consider self regulation to be preferable. Responses which captured those with either no opinion or no preference comprised 31% of those surveyed.

### Is Self Regulation Preferable?



Given that no firm in the sample had experienced industry self regulation, it is possible that many firms may be wary of such a rapid change in the regulatory regime, despite some of the potential benefits it offers. *Australian Business* believes that further investigation into the viability of a co-regulatory system is warranted. An incremental approach moving through co-regulation to self-regulation would allow experienced members of industry to have a say in the way they are governed while allowing smaller and less experienced industry players to gain confidence in self-governance.

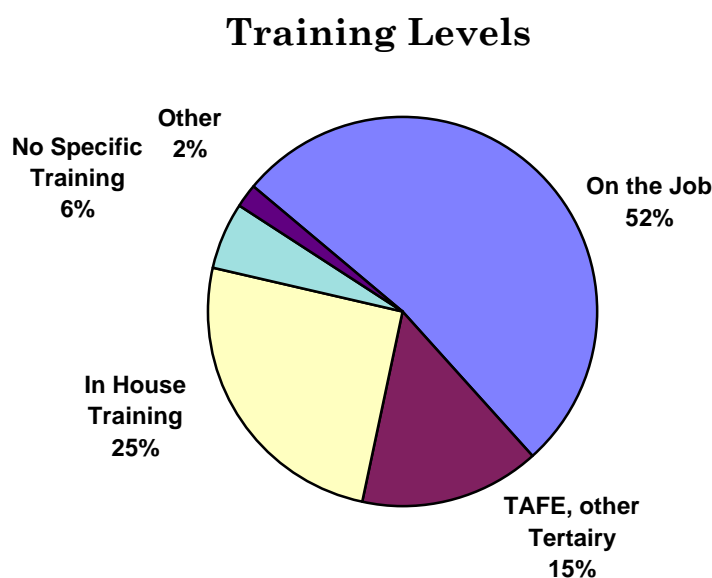


### ***Level of training for those handling and preparing food***

Because the food industry holds such importance for Australia in export markets and areas where Australia is uniquely placed for strategic niche markets, this question was aimed at trying to identify the level of skill being accumulated in the sector as well as the commitment to raising standards in the food industry.

Respondents were asked to indicate what level of training currently existed in their food business. 52% of respondents replied that their firm undertook on-the-job training. One quarter indicated that they were providing in-house training. Another 15% indicated that they had TAFE or other tertiary training available. No specific training was attributed to 6% of total respondents.

This suggests that whilst some form of training is undertaken in most firms, significant scope exists for improving the formal training of employees involved in the preparation and handling of food. Many positions in the industry (particularly in food service) are casual and part time or are filled by juniors where labour turnover can be high. This high turnover creates a disincentive for employers to invest in the formal training of their work force.



Some respondents indicated that useful external training in the area of hygiene and food handling was hard to find. Training is sometimes organised on an ad hoc basis or firms may seek to recruit employees that do not require training.

## ***Importance of training***

This question was asked to determine whether employers placed much importance on the skill levels of their employees and what were the key drivers in initiating training.

The question asked respondents to rate the importance of different statements as reasons for providing training for their employees. In the table below, a [1] indicates that the reason is of no importance, and a [5] indicates that the reason is of most importance. For example, the survey shows that 54% of firms rate buyer satisfaction as a most important reason for providing training.

It is pleasing to note that buyer requirements, high quality, improved productivity and reduced risk of inferior products are all cited as important reasons for the provision of training.

The industry shows itself to be particularly aware of the importance of producing high quality goods. The implication of this is that food industry firms are certainly aware of both the need and the benefit of a well trained work force. However, the answers to the previous question suggest that this understanding is not always being acted upon, with informal on-the-job training being the dominant form of skill development.

### **Why Supply Training ?**

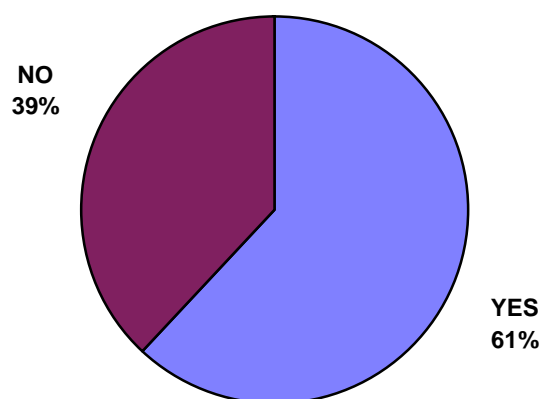
	[1]	[2]	[3]	[4]	[5]
(i) To satisfy buyer requirements?	6%	6%	10%	24%	54%
(ii) To ensure high quality?	2%	1%	3%	12%	83%
(iii) To improve productivity?	2%	1%	7%	31%	60%
(iv) To reduce risk of inferior product?	4%	0%	3%	18%	75%

NB Horizontal rows may not add to 100% due to rounding.

## *Quality Assurance programs*

This question was an important one aimed at establishing the commitment to a minimum standard of food hygiene and safety in the industry. It was reassuring to discover that 61% of respondents indicated that they already had a quality assurance (QA) system in place while a smaller proportion (39%) did not have any system in place.

### QA System in Place ?



The survey also asked firms to provide details of the QA systems that they have used. Of those who responded, 86% nominated either the Hazards and Critical Control Points (HACCP) scheme or some version of the ISO program.

Interestingly, when the results from this question are compared with question six (about difficulties in exporting), it turns out that firms that have QA systems in place encounter more difficulty when exporting their products. This implies that the monetary and time costs involved in operating a QA system do not improve the efficiency with which regulatory requirements are handled. Rather, it may be that the mismatch between the commonly used QA systems and the existing government regulations is such that the former in many ways represents just another business cost.

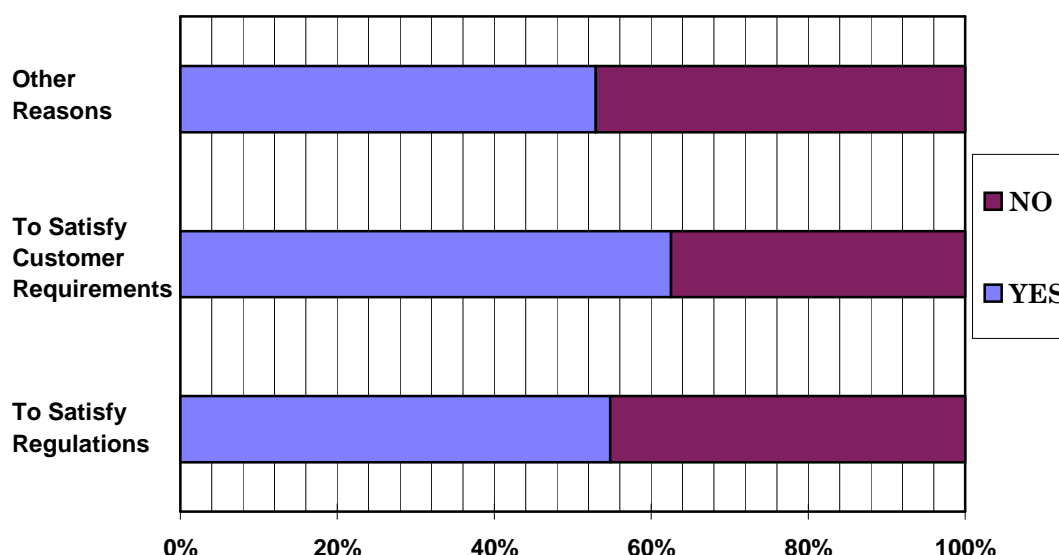
An alternate explanation may be that the introduction of a firm's QA system has been preceded by observable difficulties with regulatory compliance. This would imply that firms are in fact attempting to respond to their difficulties by introducing some form of quality assurance.

### *Intention to implement Quality Assurance program in future*

The question on QA systems was followed by another which aimed to identify whether or not those companies who did not have quality assurance were intending to implement one and the reasons for why they made this decision.

The result was that the majority of organisations (63%) yet to put in a quality assurance program were intending to do so to satisfy customer requirements. Approximately 55% were prepared to implement a quality assurance program to satisfy government regulations and 53% cited other reasons.

#### QA System to be Put in Place...



Some of the businesses indicating that they were not interested in implementing a QA system suggested that the cost of implementation and the time involved were the limiting factors. *Australian Business* expects that this would be especially the case for small to medium sized operations where the fixed costs of introducing a QA system are much higher in relative terms and the benefits are less well defined. In smaller firms, it is typically the case that informal custom and practice will dominate.

## SUMMARY

*Australian Business*' survey of its food membership has revealed some interesting trends.

The survey sample contained a slight bias towards processors and manufacturers, reflecting the nature of our membership. Despite this, the sample covered the wide range of activity in the industry. Of interest was the significant proportion of firms that produced a number of different types of goods. This suggests that many firms are seeking to expand their business and differentiate their product lines.

This drive towards innovation in the food industry is naturally tied up with the increase in the propensity to export, as well as reflecting increased demand for convenience foods for 'time poor' households. In 1996/97, exports of food beverage and tobacco products were valued at \$17.1 billion, up by 7.2% from the previous financial year. Conducting an export campaign involves a whole new layer of regulations and international customs laws. This survey has found that there are many firms that currently do not export but would like to if the regulatory environment became more accessible. Small firms in particular, while being able to offer some of the most innovative and specialised food products and services, will often find the start-up costs involved in an export drive, too great. Overall, nearly half the respondents surveyed (including exporters and non-exporters) indicated that regulation was either causing great difficulty or some degree of difficulty when attempting to export.

Organisations covered in the survey appear to have the most difficulty with the regulations that exist at the Federal level. Although duplicated regulatory requirements do not appear to be a systematic problem in the food industry, where it does exist, the costs to business are both high and unnecessary. Increases in the amount of Federal regulation can therefore only be justified if similar or identical regulations at the state and local government levels is abolished. There must be much greater effort at coordinating new regulations and enforcing existing ones between these levels of government.

Virtually all firms report that the process of regulatory compliance imposes some kind of cost on their business. 94% of firms indicate that regulation imposes either a significant or a moderate cost. All firms expect certain minimum standards of business conduct to apply to themselves and their competitors. The important question is to what degree such regulations are forcing prices up at the consumer's expense. This survey shows that firms are extremely concerned about product quality, productivity and meeting customer requirements. This suggests that many of the current regulations that are enforced by law and require extensive liaison with public sector agencies, red tape, inspections etc., would be going on without the need for public sector intervention. Hence, *Australian Business* believes that there is considerable scope for reducing the monetary and time costs imposed on firms as a result of regulatory compliance.

One possible method for achieving this is through industry self-regulation or government co-regulation. Our results show that self-regulation is in its infancy in the Australian food industry. What is more, a significant number of firms state that they would find some form of self-regulation preferable to the current system. There are certainly opportunities for greater use of government co-regulation. This will allow industry to participate and have possession of the rule setting process. Compliance should be easier to maintain if firms have had a say in the way their industry is governed. At the same time, the public sector will be able to monitor the industry and can step in when problems arise and modify policy accordingly.

When asked about specific areas, firms nominated waste disposal and hygiene as principal problem areas. Requirements from all three tiers of government appear to be the main factor adding to costs in terms of waste disposal. Hygiene is of course an area of special concern to the food industry. At least some of the problems appear to be coming from the inconsistency between Federal, state and local government regulations.

Packaging and labelling did not reveal themselves as significant problem areas in this survey, however this may be due to the slightly lower weighting that retailers and wholesalers have in the sample.

Another area where it appears that cost savings can be made was in training. If employees are well trained in the health and safety aspects of the business, many of the formal requirements should be easier to comply with. Firms appear to understand the value that training can have, but usually find that formal external courses are not cost-effective. Training therefore tends to take place as an ad hoc activity with employees learning as they go. Increased awareness and take-up of short, inexpensive training courses in the area of food handling and preparation is suggested by the findings of the survey.

Quality Assurance (QA) programs have the potential to lower the costs involved in doing business by lowering mistake rates, raising productivity and quality, streamlining office and plant procedures and reducing regulatory compliance costs. In practice however, it is not self-evident that QA systems complement firms' existing regulatory compliance requirements. It may be that items of paperwork have to be reproduced in slightly different forms, once for the relevant public sector agency and once for the QA system. It would certainly be preferable if firms that are adhering to an approved QA system could be absolved of some of their other compliance duties.

Although a majority firms either have a QA system or intend to implement one, it remains that for small business, QA systems can be expensive and time consuming. Firms will have a greater incentive to introduce QA if they believe that they will receive some cost relief in other areas of the business. Government can play a role in this by making an effort to lower the regulatory compliance requirement for firms that have approved QA systems. *Australian Business* considers the use of QA as a 'way of the future' in terms of adhering to minimum industry standards without the need for onerous public sector intervention.

The data, both published and unpublished from this study, can be provided on request.

## APPENDIX

### **AUSTRALIAN BUSINESS CHAMBER** **FOOD INDUSTRY QUESTIONNAIRE ON GOVERNMENT** **REGULATION**

We need to find out something about your company to help us interpret your responses to later questions.

1. How would you describe your operations? (Please tick (✓) as many boxes as applicable)

- (i) Primary Producer
- (ii) Manufacturer/Processor
- (iii) Food Service/Catering
- (iv) Wholesale/Retail/Distributor of Food
- (v) Other (brief description)

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2. Where are your operations conducted? (Please tick (✓) one box)

- (i) In one Australian State/Territory
- (ii) In more than one Australian State/Territory
- (iii) Both in Australia and Overseas

3. For your operations carried out in Australia are they in: (Please tick (✓) as many boxes as applicable)

- (i) Major capital cities
- (ii) Regional urban areas, eg Wollongong
- (iii) Regional rural areas

4. Please describe the major products/services of your company

- (i) \_\_\_\_\_
- (ii) \_\_\_\_\_
- (iii) \_\_\_\_\_
- (iv) \_\_\_\_\_
- (v) \_\_\_\_\_



5. Does your company export its products?

Yes  No

6. To what extent does the current level of government regulation in your industry make it difficult for you to export your products? (Please tick (✓) one box)

(i) Causes great difficulty   
 (ii) Causes some difficulty   
 (iii) Causes little or no difficulty

7. Please indicate for each level of Government the extent to which regulations affect your organisation.

		High	Medium	Low
(i)	Local	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii)	State	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii)	Federal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Is the level of current compliance requirements to protect public health and safety: (Please tick (✓) one box)

(i) Much more than is necessary?   
 (ii) More than necessary?   
 (iii) No more than necessary?   
 (iv) Less than necessary?   
 (v) Much less than necessary?

9. Do the costs of complying with regulations: (Please tick (✓) one box)

(i) Add significantly to your company's costs   
 (ii) Add moderately to your company's costs   
 (iii) Have not added to your company's costs

10. Is the current level of compulsory audit inspections for the purpose of ensuring adequate levels of health: (Please tick (✓) one box)

(i) Much more than is necessary?   
 (ii) More than necessary?   
 (iii) No more than necessary?   
 (iv) Less than necessary?



11. Has your company encountered duplication of regulatory requirements amongst more than one regulatory authority?

Yes  No

If YES, please specify

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

12. We would like to get an understanding of which regulations create the greatest problems for your firm. Please indicate how you consider the following regulatory areas to cause problems for your firm.

(Please tick (✓) one box for each area of regulation)

	Little or No Problems	Some Problems	Significant Problems
(i) Buildings/Premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) Food Hygiene Regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) Waste discharge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iv) Packaging	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) Labelling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vi) Transport/Storage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. It has been suggested that industry would be better off if government regulations were replaced with self-regulation such as codes of practice. Have you ever been involved in any of the following industry self-regulatory schemes? For example:

(i) Co regulation with a government agency	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO
(ii) Self regulation ie industry administered	<input type="checkbox"/>	YES	<input type="checkbox"/>	NO
(iii) Other (please specify)				

\_\_\_\_\_

\_\_\_\_\_

14. Would you consider industry self-regulation to be preferable to Government regulation?

Yes  No  No Preference  No Opinion

15. What level of training of employees involved in handling and preparation of food takes place in your organisation?

(Please tick (✓) as many boxes as applicable)

- (i) On-the-job training under direction of a supervisor
- (ii) Requiring employees to undertake TAFE or other tertiary education courses
- (iii) Comprehensive in-house training programs
- (iv) No specific training provided
- (v) Other (please specify)

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16. Please rate the importance of each of the following reasons for providing training for your employees

(Please tick (✓) one box for each reason)

		Of NO importance			Of MOST Importance		
		1	2	3	4	5	
(i)	To satisfy requirements of buyers of your products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(ii)	To ensure a high level of quality of your products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(iii)	To improve productivity of your operations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(iv)	To reduce risks of producing inferior products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

17. The use of Quality Assurance (QA) systems is seen as a way of moving away from a penalties and sanctions approach to placing more responsibility on the firm for managing risks. Do you have a QA system in place? eg HACCP

- Yes       No

If YES, please provide details

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If NO, do you intend to put a QA system in place?

- |       |                                  |                          |     |                          |    |
|-------|----------------------------------|--------------------------|-----|--------------------------|----|
| (i)   | To satisfy regulations           | <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |
| (ii)  | To satisfy customer requirements | <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |
| (iii) | For other reasons                | <input type="checkbox"/> | YES | <input type="checkbox"/> | NO |

Comments:

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THANK YOU for your co-operation. Your responses to this survey will be of much assistance in our representations to the Review.



State Chamber of  
**Commerce**

# RED TAPE REGISTER THE TAX BURDEN

A Study by the State Chamber of Commerce (NSW)



## A Message from Margy Osmond

State Chamber of Commerce (NSW) CEO

### WHY RED TAPE?

In the past, much of the State Chamber's taxation lobbying effort has focused on lowering the tax bills of the business community. This paper, however, highlights the hidden cost of tax for business – red tape. It essentially measures the cost to business of being a tax collector and legislative enforcer for various levels of government.

There is a perception that collecting tax is costless. But our findings show that the business community is being burdened with a significant amount of extra taxation costs, via their administrative compliance with tax liabilities. This diverts time away from serving customers, providing services and producing goods and so costs businesses money – at times significant amounts of money.

As part of the Chamber's partnership with Australia Post, we have undertaken a survey of the NSW business community to quantify the level of red tape and compliance costs that business faces. During July 2003 we surveyed thousands of business across the state, through the regional Chamber network, and asked about a range of compliance issues – from tax to industrial relations. This paper summarises the taxation-related responses to the over 500 responses we received.

Our survey highlights that the cost of compliance to a business is too high, especially when the hours spent filling in paperwork are converted to a dollar value. In addition, the burden on small businesses is disproportionate to the size of the business – in many cases tax paperwork takes almost as long for a small business to deal with as a medium business. These costs, in both time and dollars, must then be borne by a smaller pool of employees.

The members of the State Chamber of Commerce, and its regional Chamber affiliates, have a clear message for policy makers at both the NSW and Federal levels. All levels of government must work with business to lower these costs and regulators need to consider the heavy burden placed on business when it is asked to be the Government's tax collector.

### Survey Details

This survey was conducted through the State Chamber of Commerce (NSW)'s regional Chamber network during July 2003. We received 536 responses.

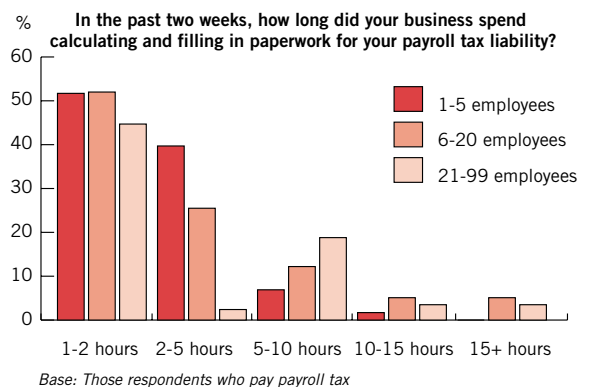
## TAX PAPERWORK BURDEN HEAVY ON MICRO AND SMALL BUSINESSES

Small business bears a disproportionate amount of the burden of tax-related paperwork. That is, a halving in employee numbers does not result in a halving in paperwork. This can be highlighted by looking at two taxes – one NSW and one Commonwealth.

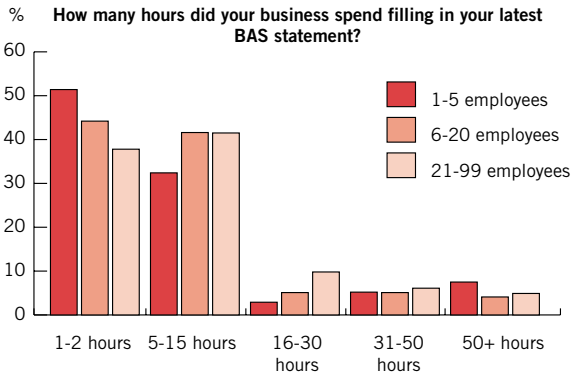
Once a business has to pay payroll tax, it takes micro and small businesses broadly the same amount of time to fill in the paperwork as a medium size business. That is, the burden of paperwork/employee is greater in smaller businesses than medium size ones. Around 30% of businesses with 1 to 5 employees and 40% of businesses with 6 to 20 employees pay payroll tax. This compares to about 90% of businesses with 21 to 99 employees that pay payroll tax. In all three business size categories, around half the people paying payroll tax took 1 to 2 hours to do so and around a third took 2 to 5 hours (see left chart). That is, there was very little relationship between the number of employees and the time the business spent calculating its payroll tax liability.

A similar conclusion can be drawn for the quarterly BAS returns for GST. A slightly higher percentage of micro businesses were able to get away with only 1 to 2 hours on their BAS. Nevertheless, for many of the other time categories, there is not a marked difference between micro firms and medium firms in terms of time taken to complete the BAS. Smaller businesses again bear a disproportionate burden of paperwork (see below).

Translating these findings into dollar-costs to business. It is clear that compliance is a highly regressive 'tax' on micro and small business. They still have to spend around the same amount of time doing tax related paperwork as a business with up to 99 employees, despite having fewer resources.



# RED TAPE REGISTER – THE TAX BURDEN



## THE GOOD, THE BAD AND THE UGLY

The most time consuming tax for business is the quarterly GST returns and associated Business Activity Statement (BAS). This took the median business 5 to 15 hours to do each quarter – or up to 60 hours over the year.

Payroll tax also has a high compliance cost. The median business took 1 to 2 hours a fortnight to comply with this tax – or 26 to 52 hours per year. This result, however, was shifted lower because half of the businesses in the survey were payroll tax exempt. If you look at just those businesses that pay payroll tax, then the median time taken per fortnight is 2 to 5 hours – or up to 130 hours per year.

## BUSINESS OWNERS – PAPERWORK OVERLOAD

Much of the burden of business-related paperwork falls on the business owner themselves, especially for firms that employ 20 or fewer staff. This means that instead of focusing on the running of a business, owners of small businesses are tied-up with forms and documents.

The three charts opposite show the breakdown of how the respondents deal with payroll, HR and general taxation issues by company size.

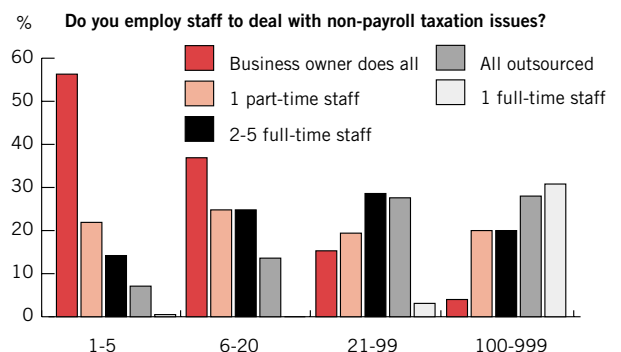
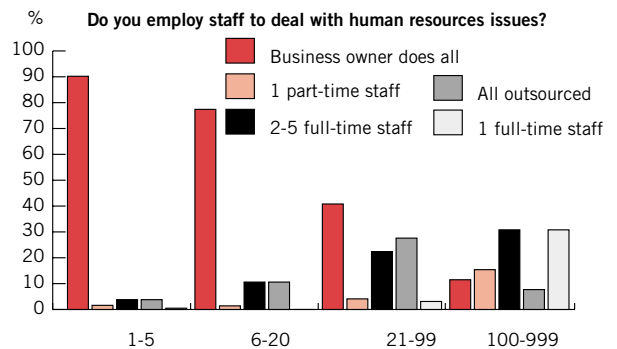
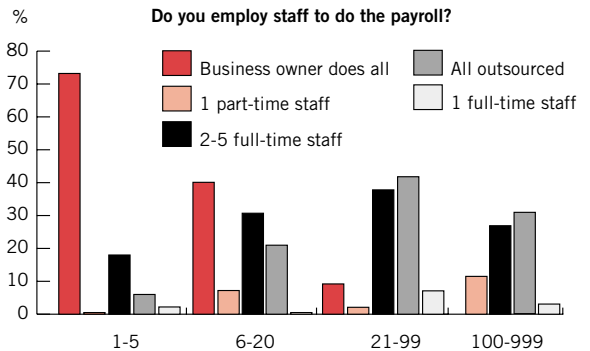
These responses highlight several points:

- Businesses with 5 employees and under overwhelmingly do all of the paperwork associated with the running of the business.
- Once a business grows above 20 employees, the number of business owners able to do all the paperwork more than halves for each of the three areas.
- Business owners are more likely to continue to do their own HR administration as they grow, rather than their own tax or payroll.
- The size of the business does not seem to effect the level of out-sourcing a business undertakes.
- Most of the out-sourcing is done for taxation purposes, for example accountants.

A third of businesses surveyed have all three of these tasks done by the business owner. All the time spent doing this paperwork by owners, is less time they can spend focusing on and growing their business. This time, when converted to dollars, represents a significant hidden tax for many companies.

For these businesses:

- Around a third pay payroll tax.
- Almost 40% have to spend time dealing with paperwork for state taxes.
- 30% had to spend 5-15 hours (up to 2 days) on their annual workers compensation renewal.
- Over 60% had to spend time in the previous year dealing with a NSW award issue.
- Nearly 12% had to deal with a potential or actual NSW unfair dismissal case in 2002/03.
- The most common time for BAS statement completion was 1-2 hours (50%) but a third took 5-15 hours (that is 1-2 days a quarter).
- In the two weeks before the survey, 28% spent 5-15 hours dealing with superannuation related issues.



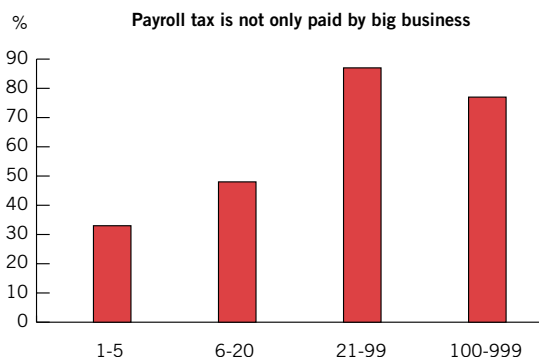


# RED TAPE REGISTER – THE TAX BURDEN

## PAYROLL TAX – NOT JUST BIG BUSINESS BURDEN

Payroll tax can no longer be classified as a 'big business' tax. Indeed, 40% of businesses with 20 or less employees said they pay payroll tax.

Of all the businesses that pay this state tax, 47% spend 1 to 2 hours a fortnight on related paperwork and 32% spend 2 to 5 hours per fortnight. That is, around a third of those paying payroll tax have to spend up to half a day each pay period just on calculating their payroll tax liabilities.



Base: Those respondents who pay payroll tax

## TAXING TIMES

Other state taxes are also a significant drain on businesses time. About 60% of respondents said they had spent some time in 2002/03 disputing or filling in paperwork for NSW tax assessments.

Of the businesses that pay state taxes, there was a large range in the time spent paying and disputing assessments during 2002/03. Around 38% spent 1-2 hours per year meeting their liabilities, 28% spent 5-15 hours, 13% spent 16 to 30 hours, 9% spent 31 to 50 hours and 12% spent over 50 hours.

For almost two-thirds of businesses paying these taxes, they have to spend over a day collecting taxes for the state government. In 12% of cases, the time spent was over a week.

Spending one day a year dealing with state tax related paperwork may sound insignificant, but converted to the dollar cost of this time<sup>1</sup>, this would average around \$174. For those businesses that spent over 50 hours dealing with these state taxes – that represents over \$868 in costs just to meet their tax obligations. This cost is in addition to the actual tax the business must pay.

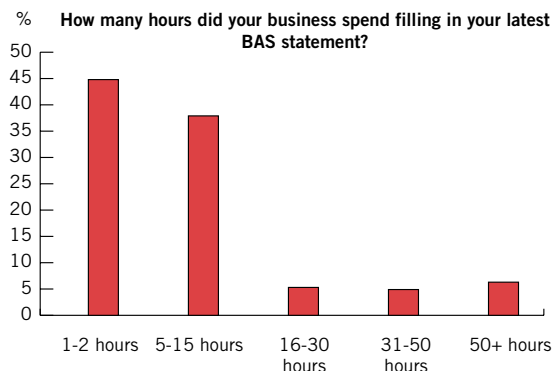
## BAS STATEMENT COMPLIANCE HIGH

There are three main taxes that businesses pay to the Federal Government; company tax, fringe benefits tax and the quarterly GST returns.

Just under half (44%) of respondents completed their BAS in 1 to 2 hours. But a further 38% took 5 to 15 hours to complete this. As a quarterly tax statement, this means that a third of businesses spend up to 60 hours a year completing BAS – making it much more time consuming to do than company tax and fringe benefits tax. Translating these costs into a dollar value, using average weekly earnings, shows a third of companies 'pay' over \$1300 each year in compliance costs for GST. This is in addition to the actual tax paid.

The company tax experience across businesses was very varied. About 20% managed to do the annual return in 1 to 2 hours. But a further 20% had to spend over 50 hours completing it. The most popular category was 5 to 15 hours, with 33%.

Fringe benefits tax liabilities were calculated much quicker, with about 60% completing them in 1 to 2 hours. A further quarter took 5 to 15 hours.



<sup>1</sup> Using full-time adult ordinary time earnings of \$868.50/week, as of May 2002.

The Chamber thanks



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