



# CCIQ SUBMISSION ON THE DRAFT NATIONAL PRODUCTIVITY COMPACT

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

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Chamber of Commerce & Industry Queensland

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## 1. OVERVIEW AND SUMMARY

- 1.1 Productivity is a vital issue for the majority of Queensland businesses, which recognise that improving productivity provides an opportunity to recapture lost competitiveness and profitability driven down over recent years by increasing business operating costs and the emergence of other lower cost global competitors. Queensland businesses, especially small and medium enterprises, want to see more done to improve productivity through concerted and real action at the business enterprise level, and not sweeping policy statements or commitments targeted predominantly at big business.
- 1.2 In particular, businesses believe that there is significant room for the State Government to take more leadership and improve their own service delivery and productivity which in turn would drive innovation and productivity growth across the broader economy.
- 1.3 Both the federal and state governments have a strong influence on the business environment: they can make it productivity-enhancing (or not) depending on the amount of red tape they are required to go through to do business, the workplace relations framework within which management and workers interact, and the taxes and charges businesses have to pay on their operations.
- 1.4 Ultimately, the ability of business to improve productivity and be innovative is dependent on the degree to which:
- they are provided **flexibility** to respond to emerging opportunities or make productive changes in their business;
  - they are **motivated** to respond to emerging opportunities or make productive changes in their business; and
  - they are **financially capable** to respond to emerging opportunities or make productive changes in their business.
- 1.5 The State Government should note that much of the reform agenda set out in the Compact and its annexures are relevant only to large businesses operating across state borders. While we understand that this is an important part of improving national productivity, these reforms do little to benefit the 96% of businesses (mainly SMEs) that operate solely *within* Queensland. The reforms that fall under the aegis of the Seamless National Economy, set out in Annex A, will not necessarily drive productivity improvements for these businesses. Indeed, the regulatory churn experienced by these businesses is seen as a significant negative.
- 1.6 CCIQ does not consider that the Compact acknowledges the extent to which the cost base of businesses (again, SMEs in particular) affect business productivity, in that it inhibits the flexibility and financial capability of business to embrace reforms and introduce productivity enhancing measures. Further, and importantly, CCIQ does not consider that the Compact demonstrates a genuine or concrete commitment to reducing regulatory costs. While the Compact would commit government to achieving regulatory objectives ‘without imposing unnecessary costs’ neither the document nor Annex A specifies how this might occur. The additional compliance and employment costs imposed under the existing Fair Work system also fail to receive a mention, and the continuation of the price on carbon is assumed without question.
- 1.7 Any compact between business and government on productivity must therefore be reflective of the above. As it currently stands, CCIQ does not consider that the draft National Productivity Compact (the Compact) does this adequately, and CCIQ would urge the State Government not to

sign the Compact in its current form. Accordingly, this document sets out the problems that CCIQ has identified with the Compact, and how they could be remedied.

## 2. KEY PRINCIPLES

2.1 CCIQ supports the development of a meaningful document, with qualities that reflect the intent of the COAG Business Advisory Forum (BAF) in proposing a reform agenda to drive improved productivity and competition outcomes. The following principles ought to underpin the National Productivity Compact:

- that there be ongoing and appropriate levels of consultation and cooperation between governments and business to reach agreement on the content for the Compact and the arrangements by which its work will be undertaken;
- that the Compact contain measures to ensure benefits are sustained;
- that regulatory disciplines described in the Compact are principles-focussed, risk-based and have defined cost benefits; and
- that it be outcomes focussed.

2.2 The Compact should be designed to reflect a shared commitment by government and business to improve productivity, but that the different roles and responsibilities of each party in achieving that broad objective should be clear and understood:

- The commitments guiding how governments and business will work to remove unnecessary and burdensome regulation; lift regulatory performance; and ensure that the process of making, implementing and reviewing regulation, should appropriately reflect the authority, role and function of each party.
- The review period of three years is noted; however, a number of the reform priorities in Annex A of the Compact have timeframes which are within the review period and which are already being advanced by the Taskforce. Further, BAF or its business members may agree to additional matters being pursued under a broader productivity agenda. CCIQ believes there should be scope for the Compact to be amended to revise the reform agenda should this be required to achieve outcomes.

### 2.3 OTHER

2.4 CCIQ also note the following considerations:

- Governance arrangements need to be articulated in order to provide clarity to all parties about their roles and responsibilities to drive outcomes. The Compact alludes to consultation and cooperation, but strong leadership is required to ensure this occurs efficiently and effectively. Communication and coordination of effort between parties will also be required.
- Presumably there will be an ongoing role for the Taskforce in undertaking this work, but this should be confirmed. This will ensure that the reform agenda remains coherent and focussed.
- The COAG Reform Council has a role in providing an independent review of the process by which reforms under the National Seamless Economy are met. Consideration may be given to a role for the CRC in gathering evidence to benchmark and assess the implementation of the new reform agenda in achieving outcomes.

### **3. PROPOSED 'SHARED COMMITMENTS'**

- 3.1 The draft Compact details a number of commitments for governments and business, describing their role and responsibilities to contribute to the reform agenda. However, it contains business commitments which can best be described as misunderstandings, and ought to be clarified.
- 3.2 Government has a role in ensuring that the environment within which business operates is effectively and efficiently regulated, that the trade and competition rules governing the operation of the market are appropriate and that administration is efficient and non-duplicative between jurisdictions. Furthermore, that business is able to flexibly respond to changes in economic conditions, and that government policy provides adequate incentives for investment and growth.
- 3.3 Business has a role in advocating for change in areas where the policy settings do not lead to outcomes that provide for investment and growth, that diminish innovation and that lead to stagnated productivity growth. Business can work with government to capture additional data required to drive evidence-based reforms and will contribute to policy debates about the impact of regulation on its operating environment. Further, it will always implement internal processes and procedures to maximise efficiencies, although there are times when even these practices will be guided by, and reflect government policy settings, particularly in relation to taxation regimes, workplace relations, and education and training.

### **4. FEEDBACK FROM QUEENSLAND BUSINESSES ON PRODUCTIVITY**

- 4.1 CCIQ does not believe that Queensland businesses currently operate in an environment conducive to productivity enhancement. They do not have flexibility in the way they run their business; there are many barriers and disincentives to business growth and operational change; and access to finance and financial incentives, as well as the direct cost of running a business, limits the ability of business to invest in business growth and operational change.
- 4.2 This view is supported by feedback from Queensland business owners and managers, many of whom point specifically to an increased regulatory burden, changes in the workplace relations framework and the high cost of running a business as having adverse effects on productivity. CCIQ would be pleased to brief the State Government on this feedback.
- 4.3 Queensland businesses have put in place many of their own initiatives designed to improve productivity. However, common feedback is that many of these measures are not necessarily implemented to improve productivity but rather are aimed at maintaining profitability and competitiveness in a tough economic and business environment or to 'keep the business profitable under the weight of massive government regulation and increasing government imposed costs'.
- 4.4 Queensland business owners and managers have identified a number of barriers to productivity growth. Unsurprisingly, the high cost of running a business is the most significant factor preventing businesses from improving productivity for over 75% of business owners. The impact of red tape and the cost and burden of regulatory compliance are also significant barriers.
- 4.5 Additional issues, which should be addressed as part of a 'shared commitment' by government and business, include:



- skills shortages and the lack of availability of appropriately skilled workers - this inhibits the ability to capitalise on productivity opportunities, especially in those regions where small local businesses are competing with the mining sector;
- the federal workplace relations regime – employers have told us that the Fair Work regime severely limits the flexibility afforded to employers to implement innovation and capitalise on innovative business opportunities;
- finance and funding constraints, including a lack of investment incentives further constrained their ability to invest in productivity growth and innovation. Many business owners commented that there was a total lack of government support for small businesses who continue to face mounting pressure from international competitors and cheap imported goods.

4.6 There is also general concern that investments and advances made over recent years to improve productivity are continually wound back and eroded as more and more regulation is imposed and business costs escalate. To help businesses realise these productive opportunities, employers strongly support:

- reforms to the taxation and workplace relations system to free up capital and provide incentives for business innovation and to provide the flexibility required to innovate at the enterprise level;
- continued commitment to reducing regulatory compliance cost and burden for business, skills and training reforms to improve the availability and mobility of labour and investment in productive infrastructure to address bottlenecks which reduce the efficiency of the business sector;
- simplification of environmental regulation and policy, particularly in regional areas, and the need for efficiency and regulatory reduction across local government compliance activities was also noted; and
- more substantive collaboration within industry sectors to identify opportunities for productivity and innovation.

## 5. HOW GOVERNMENT CAN SUPPORT STRONG GROWTH IN PRODUCTIVITY THROUGH THE COMPACT

5.1 Productivity is best achieved when we combine the right environment with the right incentives, that is, through a combination of incentives and enablers – both must be optimal if businesses are going to invest in productivity enhancements. This needs to be reflected in the Compact. The **enablers** are resources, infrastructure, skills, regulatory environment, institutions of government and the rule of law, while the **incentives** are competition, taxation policy, governance and financial capacity (i.e. financial incentives, grants, access to finance, investment or just simply the freeing up of a business's own financial resources). Australia currently needs to address both if we are to support strong growth in productivity and incomes. There are currently significant barriers and disincentives to business growth and productivity.

**5.2 Reform to the workplace relations system:** The workplace relations system and the additional regulatory and compliance burden that it entails act not only as a disincentive to employers to grow their business and expand their workforce through a 'one-size fits all' approach, but it undermines their flexibility and financial capability to run their business in a profitable and productive manner as the system removes their capacity to make necessary employment

decisions. Urgent change to the Fair Work Act is required to increase employer flexibility and reduce employment and compliance costs, and to remove the excessively punitive and litigious elements of the regime. Relevant reforms include the reintroduction of statutory employment contracts, relaxing the approach to penalty rates, further streamlining the modern awards, and introducing an unfair dismissal exemption for small businesses.

**5.3 Better infrastructure planning:** The Queensland business community believes that the previous state government failed to adequately plan for and manage the growing infrastructure needs associated with strong population and economic growth. CCIQ supports an approach based on medium and long term priorities being established for region – this is essential to help drive economic and regional growth by providing direction to the business community on where development will occur moving forward. Increased involvement by the private sector will generate employment, encourage innovation and the adoption of new technologies, drive the establishment of best practice methods, increase standards of living in regional areas and enhance the competitiveness of local industries. This involves improving business awareness of procurement opportunities and streamlining tender processes, especially at the regional level, and creating an environment in which SMEs can compete against national and international companies in tenders for government projects.

**5.4 Harnessing the Green Productivity potential:** CCIQ understands that the foundation for pricing emissions is to incentivise change and create consumer demand for new ‘innovative’ low emission products and services. In a CCIQ survey on business environmental sustainability, 40 per cent of businesses indicated that the main driver for business investment in sustainability and environmental efficiency was market and consumer demand. Many businesses see the carbon pricing scheme as a major risk to their competitiveness and viability and accordingly are not making any plans to invest in business growth or productivity enhancing technologies and processes. The concept of ‘Harnessing Queensland’s Green-Productivity Potential’ is detailed in CCIQ’s Carbon Pricing Mechanism Blueprint. The greatest challenge in this debate is how to reduce Australia’s emissions while maintaining our position as global leaders in innovation, productivity and economic growth. CCIQ believes we should be pursuing policies that support the growth of Queensland industries that are globally efficient in terms of their carbon emissions and which offer potential to provide a net reduction in global emissions.

## **6. ANNEX A AND THE ‘SEAMLESS NATIONAL ECONOMY’**

6.1 The COAG Seamless National Economy agenda has undoubtedly achieved significant outcomes in terms of harmonising national laws and reducing duplication and inefficiencies across borders. However, these outcomes have done little for small and medium businesses that operate in a single jurisdiction.

6.2 In some cases the outcome of national harmonisation has resulted in increased business costs when jurisdictions have adopted national laws and regulatory requirements not previously in place in that jurisdiction. Regulatory change and churn is considered as much an issue as new regulation itself and imposes significant cost and time burdens on business owners who must stay up to date with requirements and implement changes in the workplace.

6.3 CCIQ also holds concerns over the process by which discussions and negotiations over national harmonisation and deregulation have occurred. Jurisdictions have displayed tendencies to

argue for their own political outcomes and to protect established agencies and processes, rather than in the interests of the business community and mutually beneficial outcomes.

6.4 Notwithstanding the above, CCIQ continues to support the broad intentions of the Seamless National Economy reform agenda. CCIQ offers these further general recommendations for improving the future outcomes under the 27 key areas of reform:

1. That any outstanding items be actioned in a timely manner and that through COAG the federal, state and territory governments continue to negotiate delivery of reform priorities. Businesses have faced uncertainty and risk in their regulatory environment whilst waiting for reforms to be implemented. Accordingly, CCIQ seeks a significant opportunity in the Compact to provide for consensus on the need to fast-track any outstanding reform commitments to provide certainty for business.
2. Wherever possible, the reform agenda should focus not only on cross border or interstate harmonisation but also seek concurrent objectives of operational efficiency, effectiveness and simplification in order to reduce the cost of doing business not only across borders, but also for those businesses operating within a single jurisdiction.
3. When developing work plans and timeframes for reform priorities that consideration be given to providing adequate timeframes for business consultation and business transition. The COAG Ministers must recognise the significant effort and costs involved for business to interpret and implement new regulatory requirements and accommodate sufficient timeframes within their planning and implementation processes.
4. By continually attempting to target specific areas of regulation and simply focusing on 'streamlining' and 'harmonising' rather than actual deregulation and regulatory reduction, the real issue of red tape for businesses will never be resolved. Accordingly CCIQ sees the most benefit for SMEs to be gained from the second tier COAG agreement for leaders to identify and reduce regulations at a state level. This would be a positive outcome that could be achieved through the Compact.