

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 growth¹ – 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 Index². The Australian Economy is now consistently rated as “the world’s most resilient economy”³.

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”⁴.

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 2009⁵ and a willingness to cut State GST payments if it has to do so⁶.

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”⁷, 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 Federation⁸ deliberately has no Federal membership and is a Council of State and Territory representatives. The objectives of the Council include “completion 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”⁹.

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 billion¹⁰, or put another way, the cost of this dysfunction is in excess of the entire Budgets of the Tasmanian¹¹ and Northern Territory¹² Governments.

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 (IIMD) 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.premcabs.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 jobs¹³.

At the same time, vacancy levels have risen by 31% from 127,600 in August 2004 to 165,000 in May 2007¹⁴.

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 years¹⁵.

According to the Department of Employment and Workplace Relations, Australia will face a shortage of 195,000 workers by the end of 2010¹⁶.

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 jobs¹⁷.

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 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"¹⁸.

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.



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 focused. The twice a year COAG meeting appears to be 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"¹⁹.

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 than 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"²⁰.

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"²¹. Levels of VFI in Australia are very high compared to federation style governments in the USA, Canada and Switzerland²².

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 Mersley 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 classrooms²³. 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

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"*²⁴.

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 GDP²⁵.

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 NSW²⁶.

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"²⁷.

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.

4 Renewing economic infrastructure

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"²⁸.

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 infrastructure²⁹.

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 ports³⁰. 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"³¹.

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.

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

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"³².

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 emissions³³. 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.

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.



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?

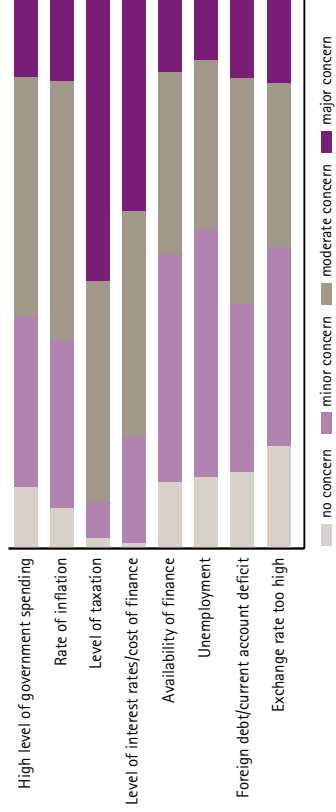
response	percentage
Less than 20	56%
20 - 99	30%
100 - 999	11%
1000+	3%

Does your business export?

response	percentage
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%



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?

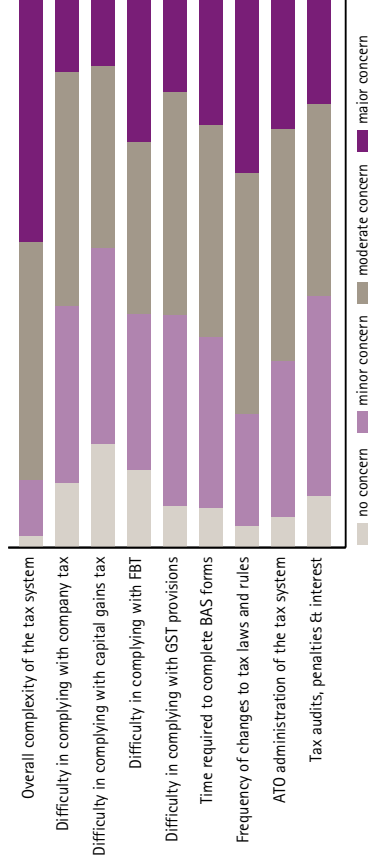
	no concern	minor concern	moderate concern	major concern
GST	8%	34%	39%	19%
Company Tax	11%	23%	41%	25%
Fringe Benefits Tax	13%	24%	33%	30%
Capital Gains Tax	19%	25%	30%	26%
Personal Tax (PAYG)	6%	21%	43%	30%
Superannuation Guarantee Charge	10%	33%	39%	18%
Payroll Tax	18%	17%	19%	46%
Stamp Duties	15%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



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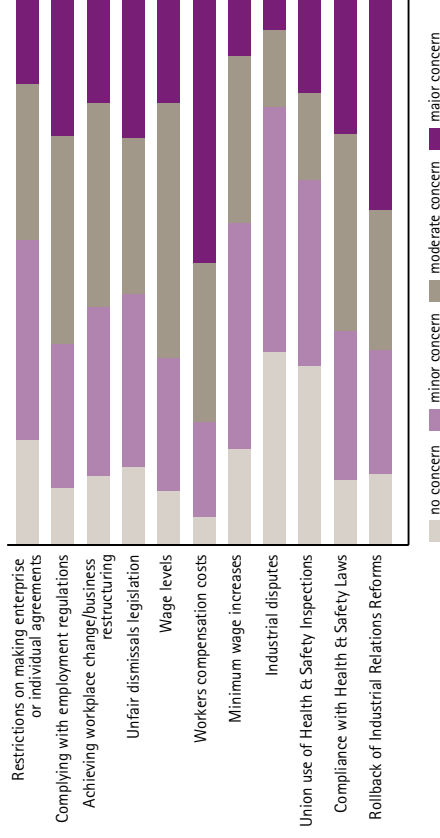
In the context of your own business to what extent are each of the following compliance measures with the tax system a cause for concern at the present time?

	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%



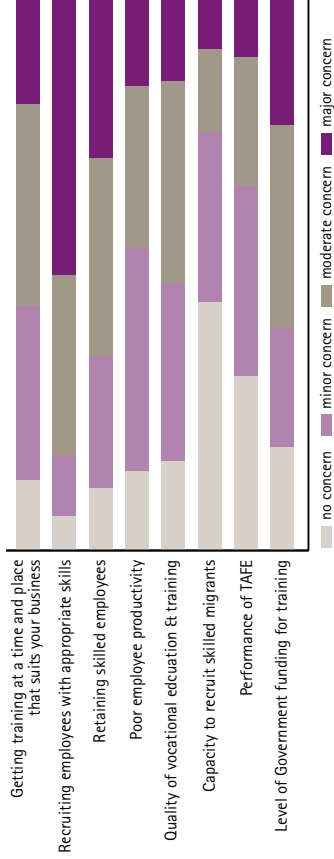
In the context of your own business to what extent are the following industrial relations and employee matters a cause for concern at the present time?

	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%



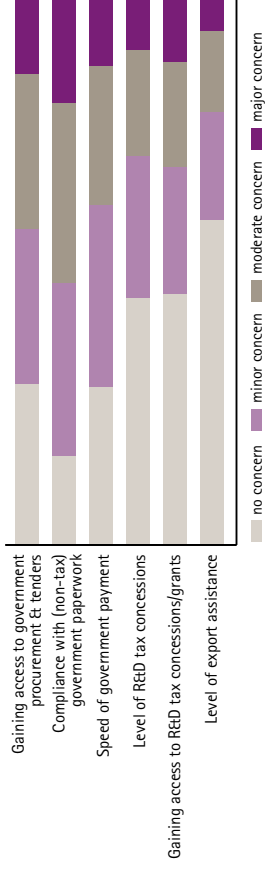
In the context of your own business to what extent are the following skills development and training matters a cause for concern at the present time?

	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%



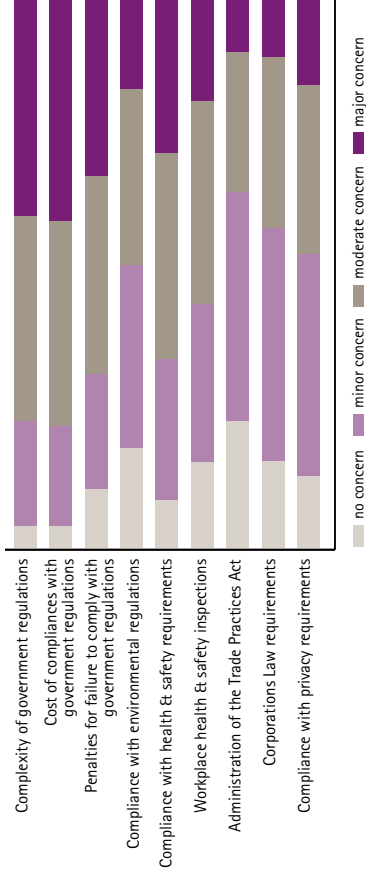
In the context of your own business to what extent are the following issues relating to dealing with government a cause for concern at the present time?

	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 RED tax concessions	45%	26%	19%	10%
Gaining access to RED tax concessions/grants	46%	23%	19%	12%
Level of export assistance	59%	19%	15%	7%



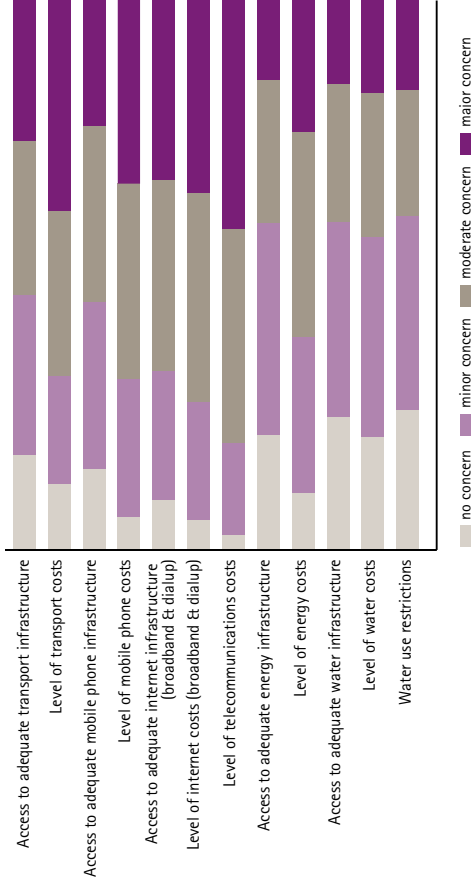
In the context of your own business, to what extent are the following matters relating to government regulation a cause for concern at the present time?

	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%



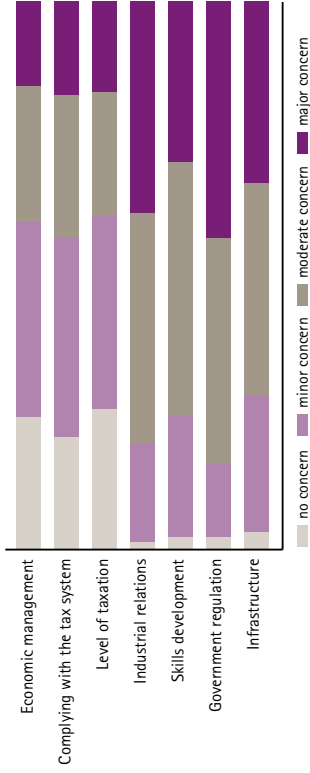
In the context of your own business, to what extent are the following infrastructure issues a cause for concern at the present time?

	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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