



**Small Business  
Development Corporation**

Our ref: D13/4029

Mr Lyndon Rowe  
Chair, Economic Regulation Authority  
Inquiry into Microeconomic Reform in Western Australia  
PO Box 8469  
PERTH BC WA 6849

Dear Mr Rowe

**Inquiry into Microeconomic Reform in Western Australia**

The Small Business Development Corporation (SBDC) welcomes the opportunity to provide a submission to the Economic Regulation Authority's (ERA) Inquiry into Microeconomic Reform in Western Australia (WA).

It is part of the SBDC's mission to foster the development of policy conducive to the growth of a thriving small business sector.

I was pleased to learn that the ERA will be undertaking an inquiry every four years into microeconomic reform priorities for WA and am keen to register the SBDC's interest in this area, especially as regards to your term of reference to focus on the removal or streamlining of State-based regulation.

Attached to this letter is my written submission in which I have:

- Explained the role of the SBDC;
- Considered the importance of microeconomic reform to small business; and
- Explored microeconomic reforms that would be of assistance to small businesses.

I believe the best way for the SBDC to achieve its mission is to work collaboratively with industry, government agencies and the Government to achieve mutual objectives for the small business sector.

In that regard, I am keen to assist the ERA throughout its inquiry process by offering to share the insights I have obtained since commencing my role as the State's first Small Business Commissioner in relation to reforms proposed for the State's small business operators, along with potential impacts on the growth of this economically important sector.

Level 2, 140 William Street, Perth WA 6000  
GPO Box C111, Perth WA 6001  
T: 13 12 49 F: 08 6552 3399  
E: [info@smallbusiness.wa.gov.au](mailto:info@smallbusiness.wa.gov.au)

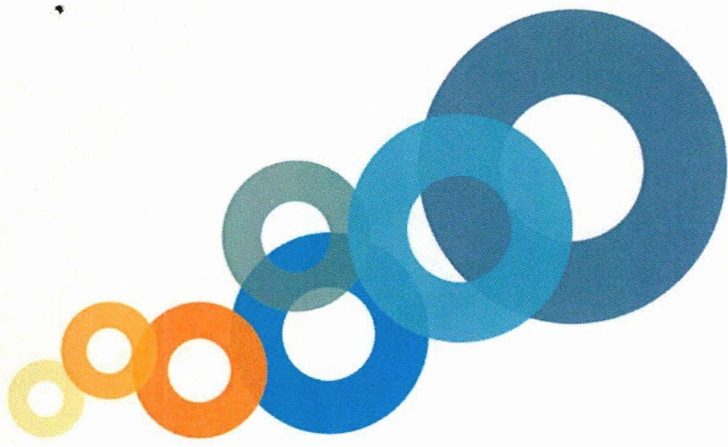
[smallbusiness.wa.gov.au](http://smallbusiness.wa.gov.au)

If you would like to meet with me to discuss any aspect of this submission or how our organizations can collaborate in the future to achieve microeconomic reform that benefit small business, Ms Darcy Bosch (Senior Policy and Advocacy Officer) on 6552 3308 or [darcy.bosch@smallbusiness.wa.gov.au](mailto:darcy.bosch@smallbusiness.wa.gov.au) would be happy to assist in this.

Yours sincerely

-----  
David Eaton  
SMALL BUSINESS COMMISSIONER

19 September 2013



**Small Business Development Corporation**

**Submission to the Economic Regulation Authority's  
2013 Enquiry into Macroeconomic Reform in WA**



**Small Business  
Development Corporation**



## About the Small Business Development Corporation

The Small Business Development Corporation ("SBDC") welcomes the opportunity to provide this submission to the Economic Regulation Authority's ("ERA") Inquiry into Microeconomic Reform in Western Australia ("the Inquiry").

The SBDC is an independent statutory authority of the Western Australian ("WA") Government and was established to facilitate the development and growth of small businesses in this State. One of the SBDC's key strategic objectives is to advocate for a fair, conducive and productive environment for small businesses in WA. The SBDC strives to achieve this by taking a leading role in influencing the policy and regulatory environment for small business.

The SBDC has been providing assistance to small business owners in WA, as well as informing government policy, for almost 30 years. In that time the SBDC has gathered extensive knowledge regarding the issues facing small businesses and provides informed opinion on small business issues to industry and all tiers of government.

In order to build up a comprehensive picture of WA's small business sector, the SBDC has a multifaceted approach to gathering information. Statistical data about the sector is monitored from a variety of sources, including interactions with individual small businesses, as well as undertaking frequent opinion polls and surveys of small business in WA.

The SBDC uses this information to inform evidence based policy development and advocacy for the small business sector internally, as well as with Government and agency officials.

## The Importance of Microeconomic Reform to Small Business

Microeconomics refers to the behaviours of the players in the economy, such as individuals, businesses and households. A microeconomic reform is a change to government policy aimed at impacting on these behaviours to ultimately improve the efficiency of the economy by changing the way its resources are used.<sup>1</sup> Some examples of past microeconomic reforms that impact on small business include:

- a) when an industry is deregulated (e.g. hairdressers);
- b) the introduction of a new industrial relations framework; and
- c) national competition policy reform.

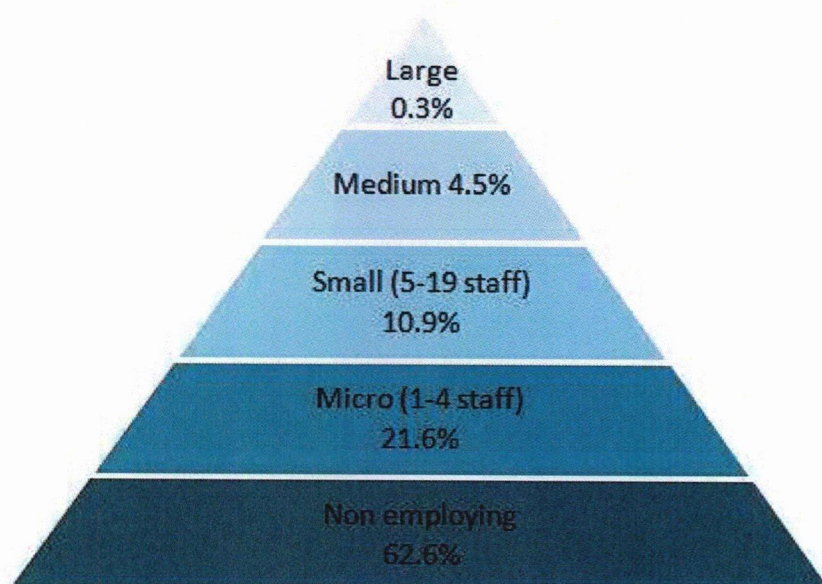
---

<sup>1</sup> Economic Regulation Authority 2013, *Inquiry into Microeconomic Reform in Western Australia Issues Paper*, Government of Western Australia, Available from [www.era.wa.com.au](http://www.era.wa.com.au) [10 September 2013]



Microeconomic reform is important to small business. Microeconomic reform that leads to changes in government policy can have substantial positive impacts on the profitability, productivity and improve the viability of a small business. A change that reduces the compliance obligations of a small business can impact on the way they allocate resources within their business. For example, as a result of a reform the small business owner may focus less of their time and money on ensuring compliance and instead spend more time managing and growing the business. As small business makes up 95% of all businesses in Western Australia<sup>2</sup> and small business employs 47.2% of the workforce across the nation<sup>3</sup>, even a slight improvement in their productivity could lead to large gains in the efficiency and performance of the overall economy.

The purpose of the Inquiry is to increase the efficiency and performance of the State economy. Given the large role that small business plays in the economy (as depicted in Figure One below), it is important that those charged with undertaking this Inquiry have small business front of mind when evaluating policy reform and making recommendations to the Treasurer.



**Figure One: The breakdown of businesses in Western Australia by size.**

<sup>2</sup> The Productivity Commission 2013, *Regulator Engagement with Small Business: Draft Report*, Government of Australia, Available from <http://www.pc.gov.au/projects/study/small-business/draft> [10 September 2013]

<sup>3</sup> Department of Innovation, Industry, Science and Research 2011, *Key Statistics Australian Small Business*, Government of Australia, Available from <http://www.innovation.gov.au/SmallBusiness/KeyFacts/Documents/SmallBusinessPublication.pdf> [10 September 2013]

## The focus of the SBDC Submission

The SBDC has knowledge of many areas of government policy that could improve small business efficiency if reformed. These range from reforms of State-based taxes, especially payroll tax; local government planning; to transport reforms that reduce road congestion.

While a range of policy settings are worthy of discussion, in the timeframe available for this first round of consultation, the SBDC's submission to this Inquiry will focus on the ERA's term of reference regarding the "removal or streamlining of unnecessary regulation", which in turn would lead to improved competitiveness for relevant small businesses in international markets. In the SBDC's view, 'red tape reduction' initiatives can be categorised across four activities, namely:

1. Removal of existing regulations;
2. Ensuring that new regulations are appropriate and efficient;
3. Streamlining existing compliance processes to minimize duplication and unnecessary burden on small business; and
4. Transforming the culture of government agencies conducting compliance to a customer focused model.

These activities will be discussed in further detail; and relevant reviews conducted, or agencies operating within these activity areas will be referenced for the ERA's information.

## Red Tape and WA Small Business

Small businesses are disproportionately affected by government regulation, the red tape generated from regulations and the often times cumbersome government processes developed around administering them. Compliance requirements impact more heavily on small businesses than they do on larger businesses, due to their differing levels of resources (e.g. time, staff and information).

Many of the complaints received by the SBDC from small businesses relate to the amount of paperwork and procedural steps associated with government agencies' regulatory frameworks.

Small businesses dedicate a lot of resources and effort to complying with regulation and quasi-regulation. Therefore, it is clear that microeconomic reform aimed at reducing red tape related burdens has the potential to greatly impact on the way that small businesses in WA operate.

Well thought out microeconomic reform could improve the efficiency and productivity of small businesses by allowing them to use their resources to improve their operations, rather than to meet cumbersome and at times unnecessary compliance requirements. An increase in the productivity of individual small businesses in WA would lead to an increase in overall productivity in the State economy.

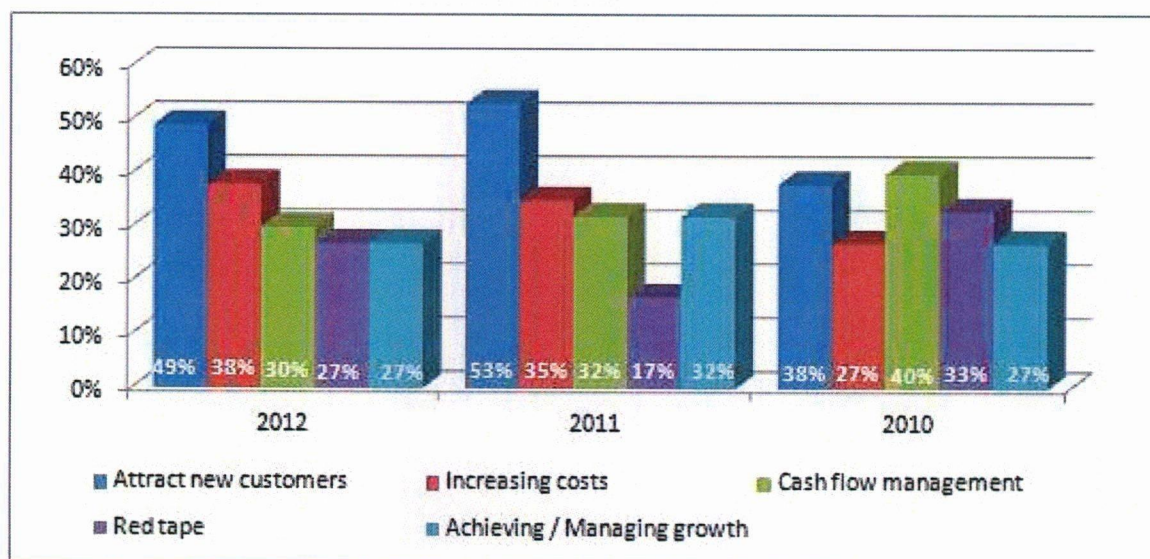


The SBDC conducts an annual telephone survey of small businesses across WA.<sup>4</sup> Commenced in 2012, the State of Small Business Survey provides the SBDC with qualitative and quantitative data on small businesses in the State. This information is used to enhance our picture of small business in the State and informs the SBDC's submissions to Government inquiries, as well as our own service delivery.

The onerous nature of red tape on small business is confirmed by the quantitative and qualitative data collected from the SBDC's surveys in 2012 and 2013. As one respondent put it:

*"Compliance with regulations takes up too much time... [there is] too much paperwork and red tape"* [survey respondent from the State of Small Business survey, 2012]

This is backed up by data collated by the SBDC regarding the key challenges faced by small businesses in WA. As shown in Figure Two below, red tape features prominently amongst the key challenges.



**Figure Two: Key challenges facing the small business sector in WA**

Respondents of the State of Small Business Survey were asked which compliance related tasks consumed the most of their time. Not surprisingly, the majority of survey respondents responded with the preparation of tax and business activity statements. Licensing, planning approvals and industrial relations were compliance tasks generated at a State and local level that were consistently mentioned as consuming respondents' time.<sup>5 6</sup> Most respondents from both survey periods (61.3%

<sup>4</sup> The State of Small Business Survey surveys a randomly selected cross section of small business across regions and industries in Western Australia. 1000 small business owners or managers were surveyed in 2012 and 500 in 2013.

<sup>5</sup> The Small Business Development Corporation 2012, *State of Small Business Project research results*, Available from the Small Business Development Corporation. [10 September 2013].



in 2012 and 54.0% in 2013) indicated that they spend between 1 and 5 hours a week on compliance related requirements.<sup>7</sup> Alarming, over a third (39.6% in 2012 and 33.6% in 2013) of respondents indicated that they spend over 10 hours a week on compliance related tasks.

Survey respondents were also asked an open question to explore their opinions of what Government could do to help their small businesses. Common responses to the question, “what is the one thing Government could do that would be the most beneficial to your business?” included reducing the legislation/ rules<sup>8</sup>, reducing the costs associated with licenses and fees<sup>9</sup>, and lowering employee wage rates<sup>10</sup>.

Some examples of the answers given by survey respondents include:

*“Lower truck registration”* [survey respondent from the State of Small Business survey, 2013]

*“Reduce shire and water rates”* [survey respondent from the State of Small Business survey, 2013]

*“Reduce the amount of time required for Government related procedures and paperwork so the small business owner can spend more time with their own products and developments”* [survey respondent from the State of Small Business survey, 2012]

*“Cut out a lot of red tape specific to processing and documentation”* [survey respondent from the State of Small Business survey, 2012]

*“Stop changing rules and regulation the whole time, it’s impossible trying to keep track of it all:”* [survey respondent from the State of Small Business survey, 2012]

*“...licensing requirements are way over the top...”* [survey respondent from the State of Small Business survey, 2013]

*“Stop creating regulations”* [survey respondent from the State of Small Business survey, 2012]

*“Stop changing all the laws, keep them consistent”* [survey respondent from the State of Small Business survey, 2013]

---

<sup>6</sup> The Small Business Development Corporation 2012, *State of Small Business Project research results*, Available from the Small Business Development Corporation. [10 September 2013].

<sup>7</sup> Ibid above 5 and 6

<sup>8</sup> Ibid above 5 and 6

<sup>9</sup> Ibid above 5

<sup>10</sup> Ibid above 6

The fact that small business is adversely affected by red tape is well established and has been the subject of previous reforms and reviews by State and Commonwealth Governments.<sup>11</sup> In recent times, the WA Government has undertaken measures that have assisted small business in WA, including the following:

- Established the Red Tape Reduction Group (RTRG) to identify and report on opportunities to reduce the burden of existing State regulation and red tape on businesses and consumers. A report titled, 'Reducing the Burden' was produced and can be accessed at [http://www.treasury.wa.gov.au/cms/uploadedFiles/Home/Publications/Independent\\_Reports/reducing\\_the\\_burden.pdf?n=1005](http://www.treasury.wa.gov.au/cms/uploadedFiles/Home/Publications/Independent_Reports/reducing_the_burden.pdf?n=1005).
- Established the Small Business Commissioner (WA) and the Alternative Dispute Resolution (ADR) services to provide small business operators with a low cost, non-litigious means of resolving business-to-business and business-to-government disputes;
- Removed certain restrictions on retail trading hours;
- Reducing the number of Government boards and committees;
- Improved the leasing environment for small businesses via amendments to the *Commercial Tenancy (Retail Shops) Agreement Act 1985*;
- Removed the requirement for some small businesses to register and pay \$624 in fees under Schedule 2 of the Environmental Protection Regulations if their operations do not pose a significant risk to the environment; and
- Fast tracked changes to the Liquor Without a Meal permit which will make it easier for restaurants that hold 120 people or fewer to serve alcohol without a meal.

Despite the improvements that these reforms have made to the environment in which small businesses operate, additional reforms are needed to further reduce the compliance burden on WA small business. To further drive these reforms in WA, a commitment is needed from Ministers and Department heads to give priority to reducing regulation burden.

The current climate is conducive for these reforms to be undertaken, as:

- this issue has received a lot of attention at the State and Federal level as a result of the business community advocating for change ahead of government elections;<sup>12 13</sup>

<sup>11</sup> Department of Treasury and Finance 2009, *Reducing the Burden: Report of the Red Tape Reduction Group*, Government of Western Australia available from [http://www.treasury.wa.gov.au/cms/uploadedFiles/Home/Publications/Independent\\_Reports/reducing\\_the\\_burden.pdf?n=1005](http://www.treasury.wa.gov.au/cms/uploadedFiles/Home/Publications/Independent_Reports/reducing_the_burden.pdf?n=1005) [10 September 2013]

<sup>12</sup> The Australian Institute of Company Directors 2013, *Towards better regulation: White Paper July 2013*, Available from <http://www.companydirectors.com.au/> [10 September 2013]  
Reference the AICD and ACCI report and the PC



- economic conditions require all levels of government to better assist businesses to improve outcomes for Federal, State and local economies; and
- the public sector is facing increasing cost pressures that will mean new, more efficient ways of conducting compliance activities will need to be considered.

## Red Tape reduction activities

The four activities discussed earlier will form the basis of the SBDC's submission into reducing red tape through microeconomic reform and will be explored in further detail below.

It is the SBDC's view that significant gains in reducing red tape for small business can be achieved at the State government level in relation to point 3 (streamlining). However, this will require a higher level of priority at ministerial and director-general level; as well as appropriately skilled resources to assess and implement process changes.

### 1. Reduction in regulation

Compliance with rules and regulation is an inescapable and oftentimes necessary part of doing business. Unfortunately it would appear that the red tape burden on Australian businesses is increasing. The Australian Institute of Company Directors' (AICD) recent survey of company directors revealed that the majority of respondents believed that red tape has increased in the last 12 months.<sup>14</sup> This finding was echoed by research conducted by the Australian Chambers of Commerce and Industry.<sup>15</sup>

Industry bodies and representative organisations have highlighted the negative impact red tape has on both business and the economy as it:

- Distorts the operation of the market, slows growth and wealth creation in the economy;<sup>16</sup>
- Prevents businesses from taking the risks required to grow;<sup>17</sup>
- Hinders businesses from competing in the international markets against businesses from countries with less restrictive regulation;<sup>18</sup> and
- Wastes a lot of time<sup>19</sup> and money<sup>20</sup>.

<sup>13</sup> The Australian Chamber of Commerce and Industry 2013, *Getting on with Business: Reform Priorities for the Next Australian Government*, Available from <http://acci.asn.au/Home> [10 September 2013]

<sup>14</sup> The Australian Institute of Company Directors 2013, *Director Sentiment Index April 2013*, available from <http://www.companydirectors.com.au/Events/Past-National-Events/Director-Sentiment-Index> [10 September 2013]

<sup>15</sup> The Australian Chamber of Commerce and Industry 2012, *ACCI National Red Tape Survey October 2012*, available from <http://www.acci.asn.au/getattachment/caea26ac-b3a5-4eb6-9d45-8488e882d6a2/ACCI-National-Red-Tape-Survey.aspx> [10 September 2013]

<sup>16</sup> Ibid above 11

<sup>17</sup> Ibid above 11

<sup>18</sup> Ibid above 11



The reduction of existing regulations is an important aspect of reducing the overall red tape burden and with significant time and effort will lead to gains for small businesses and the wider economy.

The WA Government has implemented a number of initiatives aimed at reducing the red tape on consumers and small businesses. One such initiative was the establishment of the Red Tape Reduction Group (RTRG) in 2009 which was established to identify and reduce the regulatory burden on WA businesses and consumers. The RTRG report<sup>21</sup> made 107 recommendations to reduce red tape associated with Government regulations.

The then Department of Treasury and Finance (DTF) had carriage of implementing the recommendations from the report. The SBDC worked closely with DTF to support the consultative activities of RTRG. This included providing assistance to the RTRG to undertake its extensive program of consultations with small business operators, Small Business Centres, Chambers of Commerce, business associations and local government authorities throughout Western Australia.

Although the report is a few years old, the contents are likely to have remained current in many circumstances. In the SBDC's view, a review of the report's recommendations and analysis of those introduced to date, would be useful to guide future work in this area in terms of identifying regulatory reform that could achieve significant benefits for low cost and effort. The SBDC has raised this matter with the Department of Finance (DOF), the agency that is now responsible for the economic reform.

In addition to this, an Economic and Deregulation Unit has recently been established within the Department of Premier and Cabinet (DPC) in order to identify, prioritise and progress regulatory reform initiatives.

The SBDC is liaising with both the DPC and the DOF to provide assistance and insights to small businesses concerns, to progress initiatives in this area.

## **2. Prevention of introducing inefficiency in new regulations;**

As a part of the WA Government's commitment to reducing the regulatory burden, a two stage assessment process for proposals to introduce new or amended regulation was established in 2009. This process is administered by the Regulatory Gate Keeping Unit (RGU) which recently moved to the DOF. This level of regulatory assessment was introduced to ensure that the impacts of regulatory proposals on business and the community are adequately assessed before being presented to Cabinet.

Proposals are required to go through a Preliminary Impact Assessment (PIA) process to identify the impacts on businesses and consumers from the regulation. If

---

<sup>19</sup> Ibid above 11 and 14

<sup>20</sup> Ibid above 12

<sup>21</sup> Ibid above 11

a significant negative impact is found during the PIA then a Regulatory Impact Statement (RIS) is required, which consists of a Consultation RIS and finally a Decision RIS.

The SBDC has a review function in this process by assisting the RGU to evaluate all new regulatory proposals at an early stage in policy development. Where a proposal has the potential for significant negative impacts on the business community, the SBDC can assist agencies by providing advice on the regulatory options available, the likely compliance costs to the small business sector, which businesses or organisations to consult with, and measures that may assist small businesses to adapt to the proposed changes.

The RGU was created to prevent inefficient regulation being introduced into the State's regulatory framework and it has done much in this regard. However, small businesses continue to feel overburdened by new regulations and therefore it may be timely for the State Government to review this process, with a view to tightening provisions and enhance its role. In relation to the assessment process specifically, attention should be paid to expanding its scope and providing an appropriate level of funding to the RGU for this to occur.

The assessment process covers State-level regulation and does not currently apply to the local laws created by Local Government. There is no independent assessment of the impact on small business of the by-laws, policies and rules being generated by Local Government. Given the high level of interactions many small businesses have with their local council, consideration should be given to putting parameters around the generation of new quasi-legislation and amendment of existing ones. A small business' efforts to expand their business can be easily thwarted by the rules of their local council and the time and effort compliance requires. The SBDC was recently made aware of the difficulties one small business was having navigating the various rules of different local councils, as illustrated in the example below:

***Small Business example – Same situation, different location, different rules***

*The small business provides landscaping services to homes across the western suburbs but is unable to expand its operations due to the uncertainty it faced with each Council's rules around building structures on clients' properties. This business was frustrated by the delays and costs it was experiencing in getting permission from local councils to undertake the work they were hired to do.*

Another problem with the piecemeal nature of local councils' quasi-legislation is the ambiguity it introduces into the regulatory framework. The SBDC has seen many examples of small businesses experiencing frustration in dealing with varying interpretations of the same policy.



### **Small Business example – Interpretation of rules**

*The SBDC assisted a small business that lists products for sale on the internet and packages the products to post from a residential property. This small business ran into trouble with the local council as the policy officer interpreted the council's rules around retail selling to be a blanket ban against any form of sales from residential properties within the area. In the SBDC's experience, this interpretation of the rules was more rigid than that found in other councils.*

The Productivity Commission conducted a review into the regulatory impact assessment process in 2012.<sup>22</sup> The aim of the review was to benchmark the efficiency and quality of regulatory impact assessment processes across all Australian jurisdictions (including Commonwealth, State, Territory and Council of Australian Government). A full copy of the Productivity Report can be downloaded from: [http://www.pc.gov.au/data/assets/pdf\\_file/0003/120675/ria-benchmarking.pdf](http://www.pc.gov.au/data/assets/pdf_file/0003/120675/ria-benchmarking.pdf)

If the State Government applies its regulatory gate keeping processes to local laws, the impacts on small business would likely be profound and result in improved outcomes for the economy.

### **3. Streamline current regulatory processes**

The SBDC has identified that streamlining existing regulatory compliance processes is a high priority area, where improvements could be achieved for the benefit of both businesses and a resource challenged public sector.

Many small business operators have told the SBDC that they are often supportive of the regulation of their industry but not with the form of the compliance activities created by agencies to enforce the regulation.

The Productivity Commission's review of regulator engagement with small business made recommendations to improve the red tape burden on small business by improving their experience with regulatory agencies.<sup>23</sup> The key recommendation was to improve regulator communication with small business. The Productivity Commission report can be accessed at <http://www.pc.gov.au/projects/study/small-business/draft>. The recommendations from the draft report are listed at Attachment 1 of this submission.

The challenge for successfully implementing these recommendations, at both State and Federal Government level, will depend upon a number of key issues being addressed in order to improve regulatory performance. These issues relate to a

<sup>22</sup> The Productivity Commission 2012, *Regulatory Impact Analysis: Benchmarking*, Research Report, Government of Australia, Available from [http://www.pc.gov.au/data/assets/pdf\\_file/0003/120675/ria-benchmarking.pdf](http://www.pc.gov.au/data/assets/pdf_file/0003/120675/ria-benchmarking.pdf) [10 September 2013].

<sup>23</sup> Ibid above 2



commitment from Ministers and Chief Executive Officers to address regulatory burden by ensuring that recommendations made in the draft report are actualised, along with having measurable outcomes to review regulatory engagement and accountability if outcomes are not achieved.

In terms of best practice, the SBDC supports the recently developed, 'Achieving best practice consultation with small business: A guide for government'.<sup>24</sup> The guide, which was endorsed by the Council of Australian Governments (COAG) in December 2012, clearly explains the need, benefit and ways to consult with small businesses that regulators should follow and describes the seven best practice consultation principles in detail. The SBDC would support this guide being mandated and adopted across government, with individual agency heads held accountable for adhering to these principles.

The SBDC believes that streamlining needs to occur in all aspects of the regulatory process with particular emphasis on the:

- a) Documentation;
- b) Interface between government and businesses;
- c) Assessment processes; and
- d) Educational material created.

#### **a) Documentation**

Streamlining of the documentation associated with regulatory compliance involves matters like simplifying content, improving the structure of forms, reducing the number of forms and other ways to make it easier for the receiver to complete the form (e.g. pre-populating a form with known information about the receiver<sup>25</sup>).

Lessons from the UK by the Behavioural Insights Team (commonly referred to as the 'Nudge Unit') in the UK Cabinet Office in effecting behavioural change could be applied to the redesign of documents and forms associated with regulations. It is worth alluding briefly to the work of the Nudge Unit, as the findings of their research are applicable to effecting change through simplification of documents.

The Nudge Unit found that people are more likely to comply with regulation if the documentation they need to fill out is simple, easy to understand and short. They re-designed documents with simple layouts, languages and messages. The messages

---

<sup>24</sup> Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education 2012, *Achieving Best Practice Consultation, A Guide for Government*, Government of Australia Available from <http://www.innovation.gov.au/SmallBusiness/Documents/AchievingBestPracticeConsultation.pdf> [10 September 2013].

<sup>25</sup> The Cabinet Office UK 2012, *The Behavioural Insight Team Paper on Fraud, Error and Debt*, The United Kingdom Government, available from <https://www.gov.uk/government/publications/fraud-error-and-debt-behavioural-insights-team-paper> [10 September 2013]



contained within the documents were made more salient through personalizing the forms and using attractive colours and appropriate language.<sup>26</sup> The Nudge Unit found that people are discouraged from filling out long and complicated paperwork that contains unclear phrases and terms and where the important information is buried deep within a document.<sup>27</sup>

The SBDC is advocating for change in the way that government regulators design and communicate their various rules and regulations to the small business community.<sup>28</sup> Simplification of documents can achieve increased compliance for the regulatory agency as well as helping reduce the red tape burden on those having to fill it out.

### **b) Interface between business and government**

A major aspect of the regulatory process that takes up time for small businesses is their interaction with the regulator. Whole regulatory process could be streamlined if work was done to reduce the number of contact points a business had to make with the regulator. For example, the development of an online system that allows a small business to interact with a number of different government agencies could reduce their interactions significantly.

Small businesses would reap the rewards if State Government Departments worked together to create a common interface. An example where this would assist the small business would be during the establishment of a small bar. Before the small business is even established, the owner would need to have liaised with the Department of Racing, Gaming and Liquor for their liquor licence and then the Department of Planning for their planning approvals. Although this concept is aspirational, it is not impossible as can be seen in the Federal arena through the establishment of the myGov portal. The myGov portal delivers on its slogan of “all in one place” by giving consumers access to a range of Federal Government services (e.g. Centrelink and Medicare) using one website and one set of log in details.

In the SBDC’s opinion, there are a number of ways that agencies could improve their online communication with small businesses, including e-newsletters, utilising social media and regularly reviewing website content and information placement. In addition, consideration should also be given to making more websites and surveys mobile accessible. In relation to this, the Australian Communications and Media Authority recently released data that shows that almost half of Australia’s adult

<sup>26</sup> Gallagher, R 2013, *Behavioural Insights Workshop Master Class*, powerpoint slides distributed at the Behavioural Insights Workshop at the Department of Premier and Cabinet, 23 August 2013.

<sup>27</sup> The Cabinet Office UK 2012, *Test, Learn, Adapt: Developing Public Policy with Randomised Controlled Trials*, The United Kingdom Government, available from <https://www.gov.uk/government/publications/test-learn-adapt-developing-public-policy-with-randomised-controlled-trials> [10 September 2013]

<sup>28</sup> The Small Business Development Corporation 2013, *Submission to the Productivity Commission Inquiry into Regulator Engagement with Small Business*, Available from: Small Business Development Corporation [10 September 2013].



population now owns a smartphone<sup>29</sup>. The utilisation of smartphones to access the internet is quite staggering, with 9.2 million Australians using these devices to access the internet in the six months to May 2012.

Related to the establishment of a single access point to Government agencies is the “one business, one licence” concept raised by the Productivity Commission. The Productivity Commission gave an example of one Government agency conducting site visits and collecting information on behalf of all government agencies that oversee the compliance aspects of a business. The current lack of coordination between government agencies collecting information from business in the regulatory process was an issue picked up by the Productivity Commission<sup>30</sup> as well as in the RTRG Report<sup>31</sup>.

The example below illustrates a situation that the SBDC was recently made aware of where the reported lack of coordination across Government agencies caused frustration for a WA small business.

#### ***Small Business Example - Erecting Signage***

*A small food producer based in the State's South West relied on signage placed along the main road to lead customers to their farm based shop. On one occasion, the business owner was puzzled as to why they had not received any customers and discovered that the signs promoting their business had been removed. On investigating, the business owner discovered that the signs promoting their farm shop had been taken down by a government employee. When they enquired about erecting new signs, they were told to make an application to the State Government agency for approval, a process which took over a year and cost the business significant amount of money. To erect the same signs in different locations around the area, the small business had to then make applications to the local government and pay additional fees. In this example, the small business owner experienced significant delays and monetary loss in having to deal with two different government authorities to erect signage.*

#### **c) Assessment process**

The Productivity Commission recommended that businesses be allowed to self assess their compliance with regulation based on prescriptive guidelines produced by government agencies.<sup>32</sup> In this way, a business would be deemed to be compliant if they had fulfilled the requirements of the guidelines and self reported this to the

<sup>29</sup> Australian Communications and Media Authority 2013, *Smartphones and tablets – Take-up and use in Australia*, Government of Australia, Available from: <http://www.acma.gov.au>. [18 February 2013].

<sup>30</sup> Ibid above 2

<sup>31</sup> Ibid above 11

<sup>32</sup> Ibid above 2



agency. This would save both the agency and the business time and money by reducing the number of compliance related checks undertaken, for example site visits. Compliance with this system could then be monitored through a series of random checks on self reporting businesses.

However, at the other extreme, the Productivity Commission and SBDC has noted calls from small business operators for zero discretion but perfect clarity around what is specifically required from regulators. Approximately 40% of businesses surveyed by the Productivity Commission<sup>33</sup> indicated that their preference is to be told exactly how to comply with regulations and that they preferred prescriptive guidelines.

Further research is needed in this area to ensure that any reform to the current assessment processes employed by regulatory agencies has a positive impact on small business.

#### ***d) Educational material***

Small businesses are time poor, with the small business owner often having to complete paperwork after hours when they have finished their 'working day'. They need assistance in navigating regulatory processes and would benefit from the provision of simple instructions to guide them through each stage of the process, for example how to fill out forms, important deadlines and where to hand them in. The need to provide clear education material will be further explored below in the context of changing the culture of compliance based agencies from combative to educative and facilitative.

#### **4. Shifting the culture of compliance based government agencies to a customer focused model.**

The most beneficial reduction in the red tape burden on small business would be achieved through a multifaceted approach involving changes in both the written policies and the culture guiding regulatory agencies.

Policies need to be amended to reflect a change in approach that moves away from coercion through legislation, towards encouragement to make the right choice. The cultural shift of regulators would involve a shift away from a hard line compliance approach toward a more customer focused attitude.

The Productivity Commission has recently highlighted that small businesses' experience with regulation is based on their engagement with the government agency that manages it. This notion was supported by the following comments from a small business owner who has had dealings with compliance based agencies:

*"The tax office [should be]... more available – the biggest problem is communications with them"* [survey respondent from the State of Small Business survey, 2013]

---

<sup>33</sup> Ibid above 2

*“Reduce bureaucracy/ employ more commercial minded people in Government”* [survey respondent from the State of Small Business survey, 2013]

As previously mentioned, small businesses are more heavily impacted when complying with regulations than larger businesses and this is due to their lack of resources. It is for this reason that small businesses should be treated differently to larger businesses by regulators. After exploring regulator engagement with small business, the Productivity Commission suggested that changes to the approach of the regulator, their educational material and communications with small business would help reduce the compliance burden on small businesses. Small businesses would benefit from a more educative and facilitative approach to compliance rather than a hard line approach<sup>34</sup>

The SBDC is well aware of the difficulties associated with changing the culture of an organisation, particularly those that are traditionally guided by the need to achieve compliance amongst stakeholders. A relatively new school of thought has developed around changing the behaviour of citizens through the application of behavioural economic principles.

Behavioural economic theory has gained momentum within Governments as they explore the possibility of steering people towards making better decisions for themselves by giving them a ‘nudge’ in the right direction. As discussed earlier, this theory guides the work of the Behavioural Insights Team (referred to as the ‘Nudge Unit’) of the UK Cabinet Office as they apply behavioural economics and psychology to public policy and services. The Office of State Revenue (NSW Government) is also currently trialing the application of these principles to increase the payment of fines and taxes owed by NSW residents.

Whilst the theories and principles applied by the Nudge Unit are designed at increasing compliance with regulation rather than reducing the red tape per se, the lessons from the Nudge Unit can be transferred to a discussion of reducing red tape through policy reforms. Some of the red tape that small businesses experience relates to the guidelines by which agency staff operate and the hard line regulator role that some adopt. In some instances a hard line regulator approach to compliance may not be necessary for the agency to fulfill its regulatory function. It is in those instances that a change in culture could reduce red tape for small businesses without impacting on the regulator fulfilling its role.

The application of these principles is particularly relevant in the situation where an agency cannot achieve a reduction in red tape through the reduction of actual regulation. In this case, the reduction of red tape experienced by those subject to the regulations can be achieved only through a change in the way that the agency staff approach their regulatory role and through the way the agency communicates information to its clients.

To facilitate this cultural change amongst regulatory agencies, a policy could be implemented that mandates the inclusion of reducing red tape into the key

---

<sup>34</sup> Ibid above 2



performance indicators of regulatory agencies. Where reducing red tape cannot be achieved through the reduction in actual regulation, agencies could include the following measures in their key performance indicators:

- improvement of communication and educational material,
- reduction in the time taken to respond to clients' requested response times; and
- fewer points of contact between the small business and agency.

The application of these measures can assist heads of departments to change the culture of their staff, which will in turn impact on the agencies engagement with those that are subject to its regulations. Staff who are willing to adopt a more facilitative and educational approach to its small business stakeholders are more likely to assist the agency as it changes the way it engages with its customers. Any cultural change within a regulator agency can only be effective if it is supported by the staff administering the agency's regulations.

Changing the culture of regulatory agencies through behavioral economic principles is an area worth considering further during the exploration of how to increase the efficiency and productivity of the economy through microeconomic reform. The SBDC believes that a change in government policy that leads to a change in culture of regulatory agencies would greatly reduce the red tape burden on small business.

## Conclusion

While there has been some improvement in the red tape reduction in WA, there is still a lot of work to be done. The release of the RTRG report was heralded by some as the catalyst for change in this arena. Since the release of that report, there has been disappointment amongst the business community about the apparent lack of progress made in reducing red tape, which has also been viewed by some as a lack of commitment to the process by Government.

There has been a surge in the amount of attention being given by Government and industry to the reduction of red tape. It is positive that momentum for this process is gathering, however until this momentum results in increased action, small businesses continue to suffer from unnecessary compliance burdens.

Reducing red tape on small businesses leads to an increase in the resources that they have available to increase their productivity and therefore their contribution to the State economy. The fact that any increase in productivity in the small business sector can lead to a cumulative large increase in the productivity of the overall State economy is a fact that is worth reiterating.

The SBDC is grateful to the ERA for the opportunity to provide a submission to this important Inquiry. This Inquiry represents an opportunity to implement microeconomic reforms to increase the efficiency and productivity of all small businesses in WA and improve the State's economy. The SBDC welcomes the opportunity to assist the ERA in determining how microeconomic reform proposals

generated from this Inquiry will impact on small business. For further information on the SBDC's submission please contact Ms. Darcy Bosch (Senior Policy and Advocacy Officer) on 6552 3308 or via email [darcy.bosch@smallbusiness.wa.gov.au](mailto:darcy.bosch@smallbusiness.wa.gov.au).



## Attachment One: Recommendations from the Productivity Commission's draft report on Regulator Engagement with Small Business

Draft recommendation	Benefits for small business	Benefits & costs for the regulator & community
1.1 Small business definition multiple possible	<ul style="list-style-type: none"> <li>Definitions practical &amp; appropriate for industry</li> <li>Differential treatment is not limited to those that meet a generic definition</li> </ul>	Flexibility to improve regulatory outcomes
2.1 Evaluate impacts when designing regulation; consider implementation & enforceability	Business impacts taken into account & activity only regulated when justified <ul style="list-style-type: none"> <li>Compliance burdens reduced</li> </ul>	Regulation able to be implemented & deliver intended outcomes <ul style="list-style-type: none"> <li>Compliance can be efficiently monitored &amp; enforced in practice</li> </ul>
2.2 Clarity of government's expectations & acknowledgment of risk	Lower risk businesses may have less regulatory burden <ul style="list-style-type: none"> <li>Stronger incentive to manage risks</li> </ul>	<ul style="list-style-type: none"> <li>More consistent approach to risk &amp; capacity to target resources</li> <li>A less 'risk averse' culture that is less likely to overreact to adverse events</li> </ul>
2.3 Appropriate regulator culture needs to be facilitated	Builds trust with regulators <ul style="list-style-type: none"> <li>Regulator has better appreciation of small business needs &amp; compliance capacity</li> </ul>	Continual improvement in regulator culture helps facilitate business understanding, potentially lowering costs of non-compliance
3.1 Remove unnecessary complexity; offer small business standard compliance solution or option to innovate	Lower costs in meeting regulatory requirements <ul style="list-style-type: none"> <li>Detailed guidance that provides greater certainty</li> <li>Increased scope to innovate in compliance</li> </ul>	Improved compliance & regulatory outcomes <ul style="list-style-type: none"> <li>Increased administration costs to develop standard compliance solutions &amp; evaluate alternatives</li> </ul>
3.2 Differential treatment for small business in regulation delivery or design	Lower compliance burden from a more consistent & consultative approach to small business treatment	More efficient allocation of enforcement resources to higher risk businesses <ul style="list-style-type: none"> <li>Costs of developing &amp; administering different delivery approaches</li> </ul>
4.1 Achieving compliance <ul style="list-style-type: none"> <li>educative &amp; facilitative approach</li> <li>streamlined processes</li> <li>inspections &amp; audits commensurate with risks</li> <li>cooperation &amp; recognition of other related processes</li> </ul>	Better understanding of compliance obligations <ul style="list-style-type: none"> <li>Simpler processes with fewer approvals &amp; licences needed</li> <li>Less frequent renewal &amp; information requirements</li> <li>Regulatory posture towards lower risk businesses is more permissive, lowering compliance costs</li> <li>Less frequent and/or comprehensive inspections for lower risk businesses</li> <li>Better scheduling/reduced overlap will reduce burden of inspections</li> <li>Capacity to use third party &amp; private sector compliance information to satisfy regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>Increased voluntary compliance &amp; improved relationships with business</li> <li>Reduced costs through elimination of some processes or less frequent engagement</li> <li>Some agencies may incur higher costs (where licence scope is broadened)</li> <li>Handling of risk is evidence based, &amp; guides targeting of resources &amp; setting of compliance obligations</li> <li>Additional administration costs to implement structured risk-based framework</li> <li>Sharing of intelligence &amp; inspections with other regulators can reduce duplication &amp; costs</li> <li>Drawing on industry expertise can address gaps in skills or capacities</li> </ul>

<i>Draft recommendation</i>	<i>Benefits for small business</i>	<i>Net benefits for the regulator &amp; community</i>
4.2 Sufficient range of enforcement tools	<ul style="list-style-type: none"> <li>• Businesses can expect a proportionate response to any compliance breaches</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient enforcement &amp; deterrence by making response proportionate to risk</li> <li>• Better balance between facilitative &amp; combative engagement approaches</li> </ul>
4.3 Timely processes & decisions	<ul style="list-style-type: none"> <li>• Reduce undue delays due to regulatory processes</li> <li>• Greater transparency of expected timeframes improves certainty</li> </ul>	<ul style="list-style-type: none"> <li>• Greater clarity on expected timelines</li> <li>• Improved timeliness performance</li> <li>• Encourages a decision making culture &amp; empowerment of staff</li> </ul>
5.1 Information & advice is clear & accessible & delivery tailored where appropriate	<ul style="list-style-type: none"> <li>• Requirements targeted &amp; easier to access &amp; understand — including by small businesses that face particular challenges, such as those with owners with poor English skills</li> </ul>	<ul style="list-style-type: none"> <li>• More effective communication with business</li> <li>• Improved compliance outcomes</li> </ul>
5.2 Streamline information requests/reporting processes	<ul style="list-style-type: none"> <li>• Easier to complete/lodge forms</li> <li>• Less overlap/duplication in reporting</li> <li>• Greater consistency of requests with data business already collects</li> </ul>	<ul style="list-style-type: none"> <li>• Sharing of information between regulators can reduce duplication &amp; costs</li> <li>• May require investment in IT &amp; systems redesign</li> </ul>
5.3 Consultation & processes for complaints handling, review of decisions & mediation	<ul style="list-style-type: none"> <li>• Avenues to formally raise concerns about decisions or approaches are readily accessible &amp; timely</li> <li>• Greater confidence complaints will be handled impartially &amp; processes will provide suitable redress</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunities to learn from business feedback &amp; improve engagement practices</li> <li>• Enhances accountability, builds trust &amp; credibility with stakeholders</li> </ul>
6.1 Sufficient resourcing; staff skills & capacities;	Regulator more accessible & facilitative in engagement with business	More efficient achievement of objectives with improved compliance outcomes & better decisions
6.2 transparency & accountability in decision making	<ul style="list-style-type: none"> <li>• Greater certainty &amp; consistency in engagement with regulators &amp; how discretion is exercised both within &amp; across regulators</li> <li>• Regulator staff better understand business &amp; can more effectively communicate &amp; adjust compliance requirements</li> <li>• Reasons for decisions are transparent</li> </ul>	<ul style="list-style-type: none"> <li>• Improving guidance &amp; training may increase administration costs</li> <li>• Regulator staff better skilled to appropriately use discretion &amp; to effectively administer &amp; enforce regulation</li> <li>• Reduced risk of corruption or regulatory capture</li> <li>• Improved skills &amp; knowledge builds trust &amp; credibility with businesses</li> </ul>
6.4 Evaluation/review; sharing information; monitoring/reporting performance; develop & report engagement principles	<ul style="list-style-type: none"> <li>• Stronger incentives for regulators to adopt engagement practices that minimise compliance burdens</li> <li>• Problematic engagement practices are less likely to persist</li> <li>• Greater certainty on what to expect from engagement with regulators</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitates continuous improvement in regulator engagement practices</li> <li>• Increases the net benefits of regulation</li> </ul>