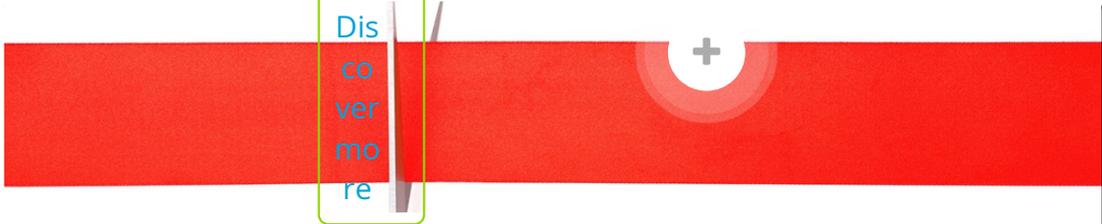


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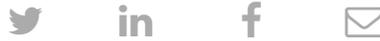


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Rules eat up \$250 billion a year in profit and productivity

Deloitte report



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29 October 2014: Australia's productivity is being choked by red tape, with the combined cost of administering and complying with public and private sector bureaucracy costing the nation \$250 billion every year.

Strikingly, the cost of complying with self-imposed rules created by the private sector is double that associated with government regulations, according to Deloitte Access Economics. The self-imposed rules of the private sector cost \$155 billion a year: \$21 billion to develop and administer, and a stunning \$134 billion a year in compliance costs.

In a world first, Deloitte's new report [Get out of your own way: Unleashing productivity](#) - the fourth in the firm's [Building the Lucky Country series](#) - identifies the costs to corporates and the nation of self-imposed



Next steps

red tape.

It shows that the time required for employees to comply with self-imposed rules has become a crippling burden. Middle managers and senior executives chalk up 8.9 hours a week complying with the rules that firms set for themselves, with other staff spending 6.4 hours.

According to report co-author and Deloitte Access Economics partner, [Chris Richardson](#): “Unless and until we address this choking cost, it will be hard for Australia to be truly ‘open for business.’”

“To be clear, rules and regulations are vitally necessary. They cement the key foundations of our society, protecting the rule of law and a wealth of standards in everything from health to safety and the environment. And they can help businesses to reduce risk and plan for the future.

“However, a decade of prosperity has seen Australia’s policymakers ‘reach for a rule’, often without weighing the costs and benefits of doing so, and the cost of government rules has risen since the last time the Productivity Commission added them up.”

Deloitte Access Economics estimates that Federal, State and local government rules and regulations now cost \$27 billion a year to administer, plus a huge \$67 billion a year to comply with.

Yet at least the public sector is aware that it can do better. Indeed, today marks this year’s second regulation repeal day at the federal level, following the first in March.

[Gerhard Vorster](#), Deloitte’s Chief Strategy Officer and Building the Lucky Country series co-author, observed that: “Bureaucracy isn’t solely something that governments can do better – we all can. Remember when you actually used to be able to do work when you were at work? The pay offs to better rules have the potential to be a big driver of

rules have the potential to be a big driver of gains in productivity, as well as our living standards. Individual businesses need to unlock the profit potential they've tied up in their own red tape."

Deloitte has taken a dose of its own medicine, asking its employees to identify 'dumb rules' that get in the way of innovation, collaboration and creativity, with a 'Dumbest Things' internal programme.

"Every few years over the past decade we ask our people 'What are the dumb things we do? What is stopping you doing your job?' And each time we identify a disappointing level of unnecessary rules, which we have to remove," Vorster said. "We only did this recently, for the fourth time, and still we are finding rules that slow us down.

"For us, our Dumbest Things Campaign is the beginning of a purposeful and programmatic unleashing of productivity across the organisation. It's about actively reminding all our people that innovation comes from building a culture that focuses on what must go right, not what could go wrong."



Businesses usually impose rules on themselves for good reason – to increase controls, avoid risk, create compliance or make the organisation more effective. Yet often there are unintended or unforeseen consequences, with the new rules creating overlaps in regulation, or old rules becoming outdated due to changes in technology or business models. Some varied but representative examples:

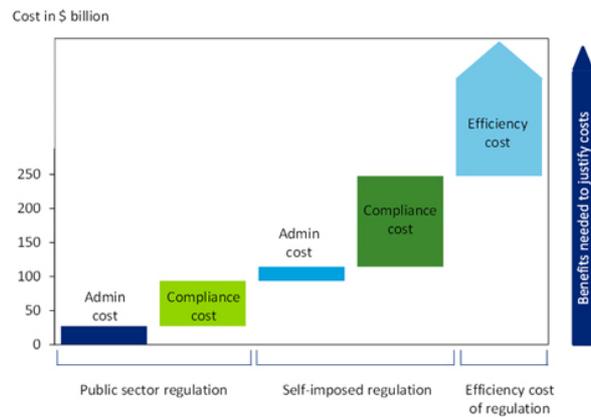
- The small taxi fares that have to await approval from the weekly executive team meeting
- The firm that rejects application forms from potential customers if they are completed in blue ink
- The firm that made engineers sign off on new parts at a fixed location, making them walk 15 kms a day

- The rules that made staff record every guest coffee made, but let them order as much alcohol as they like
- The firm that made staff do an ergonomic checklist when moving desks, then introduced 'hot desking'
- The global HQ that told a newly acquired Australian subsidiary that it couldn't put an Excel spreadsheet on its website, even though the new subsidiary's line of business was selling data in Excel format to its clients
- The public servant who needed two approvals to spend \$20 on marshmallows for a workshop
- The senior public servant in Sydney who needed the approval of his departmental head to travel to Parramatta as it was deemed to be outside the 'city limits'.

The crushing impacts of dumb rules like these on Australia's productivity include:

- \$250 billion – annual burden on the national economy of administering and complying with the rules set by both governments and businesses
- \$155 billion – annual cost to administer and comply with rules the private sector imposes on itself
- 8 weeks – time spent each year by the average employee just to pay for the cost of administering and complying with rules
- 1 million people – employed in 'the compliance sector' – the fastest growing sector in Australia.

Chart 1 - The annual cost of rules to Australian businesses and families.



The total cost of \$250 billion a year means that Australians – both workers and businesses – have to work for eight weeks every year just to pay for the administration and compliance costs of the rules we set ourselves.

A saving of just 10% of these costs (without a net loss of the matching benefits of rules) would equal 1.6% of national income, ranking its impact with some of the largest reforms Australia has ever seen.

Yet even these dollars are an underestimate. Economists have long agreed the biggest burden of rules and regulations comes because an excess of rules saps incentive, enterprise and innovation across our economy.

Our rule-makers – both government and business – often try to achieve the unachievable. They set rules that are too prescriptive, overreact to momentary crises, let new rules overlap with existing rules, don't listen to those most affected, and don't go back later to check how well their rules are working or if they are still required.

So Australian businesses have bulked up, employing many people whose role is to create and then enforce a whole bunch of rules and regulations. That doesn't just mean some lawyers and accountants. It also

includes some people in finance and IT and HR functions, as well as in fast-growing governance and security roles.

As a result, there are already more 'compliance workers' across Australia than there are people working in construction, manufacturing or education roles. In fact, one in every 11 employed Australians now works in the compliance sector.

Chart 2 - The rise and rise of Australia's compliance culture - and workers



Gerhard Vorster noted that: "Australia's compliance culture is cluttering our cost base and choking our innovation. That is coming at a massive and rising cost to our nation and to our ability to innovate. At least governments are aware of those regulatory costs, and are trying to rein them in."

Chris Richardson concluded: "Our politicians can raise our living standards if they have the courage to deregulate, but the same is even more true of our corporates, who need to have a close look at the productivity potential locked up in their own poor rules and rule-making."

"Addressing the weight of Australia's government and corporate red tape is the clearest path to raising national living standards across the next decade. It is where

standards across the next decade. It is where we've made the biggest mistakes as a nation, but also where we can make the biggest – and most profitable – progress.

“There is a huge payoff to the profits of Australian businesses and the incomes of our workers if we simply get out of our own way. Doing so won't just unleash business productivity – it will unleash Australia.”

Building the Lucky Country

To drive debate, and action, around issues critical to Australia's future prosperity, Deloitte launched its [Building the Lucky Country: Business imperatives for a prosperous Australia](#) series of reports in 2011. To date:

- [Where is your next worker](#) (2011) looked at helping people get or stay in work, and where business and government can look for new sources of labour
- [Digital disruption: Short fuse, big bang](#) (2012) looked at how organisations can get ahead of digital trends, given technological change is a big driver of workplace productivity
- [Positioning for prosperity: Catching the next wave](#) (2013-14) looked at ways to help businesses get into future growth hotspots.

Note:

Separate media releases cost the red tape challenges faced by industry sectors and the states.

***A Get out of your own way* infographic and copies of the report are available on request.**

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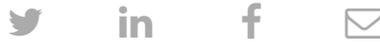
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