



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Reference: Small business employment

WEDNESDAY, 17 JULY 2002

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SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION REFERENCES COMMITTEE

Wednesday, 17 July 2002

Members: Senator Campbell (*Chair*), Senator Tierney (*Deputy Chair*), Senators Barnett, Carr, Crossin and Stott Despoja

Substitute members: Senators Murray, Cherry and Allison for Senator Stott Despoja and Senator Conroy for Senator Carr

Participating members: Senators Abetz, Boswell, Buckland, Calvert, Chapman, Cherry, Collins, Coonan, Denman, Eggleston, Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Hutchins, Knowles, Lightfoot, Ludwig, Mason, McGauran, Murphy, Nettle, Payne, Sherry and Wason.

Senators in attendance: Senators Barnett, Campbell and Murray

Terms of reference for the inquiry:

To inquire into and report on:

1. The effect of government regulation on employment in small business, specifically including the areas of workplace relations, taxation, superannuation, occupational health and safety, local government, planning and tenancy laws.
2. The special needs and circumstances of small business, and the key factors that have an effect on the capacity of small business to employ more people.
3. The extent to which the complexity and duplication of regulation by Commonwealth, state and territory government inhibits growth or performance in the small business factor.
4. Measures that would enhance the capacity of small business to employ more people.

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Committee met at 1.04 p.m.

CHAIR—I declare open this public hearing of the Senate Employment, Workplace Relations and Education References Committee. On 20 March 2002, the Senate referred to its Employment, Workplace Relations and Education References Committee an inquiry into small business employment. The terms of reference focus on, broadly, two main issues: firstly, the effects of government regulation on the performance of small business, including the complexity of these regulations and the overlap between Commonwealth, state and local government regulations; secondly, the special needs and circumstances of the sector, particularly with regard to the capacity of small business to employ more people. Some of these issues were canvassed by this committee in its inquiry into regional unemployment, which reported late in 1999. The committee acknowledges the vital importance of small business in the Australian enterprise structure and the need to ensure that the sector has the capacity to grow and to increase the size of the labour market. Of particular interest to the committee is the challenge of transforming successful small businesses into dynamic medium sized industries capable of driving economic growth and employment.

The committee has received submissions from a wide range of small business interests and is conducting public hearings in several states as well as less formal, roundtable discussions with local businesspeople. Before we commence taking evidence today, I wish to state for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to the evidence provided. Parliamentary privilege refers to special rights and immunities attached to the parliament, its members and others necessary for the discharge of parliamentary functions without obstruction or fear of prosecution. Any act by any person that operates to the disadvantage of a witness on account of evidence given before the Senate or any of its committees is treated as a breach of privilege. I welcome all observers to this public hearing.

[1.06 p.m.]

FITZPATRICK, Mr Peter John AM, Executive Director, Motor Trade Association of Western Australia Inc.

SIMONS, Ms Noelle Frances, Divisional Manager, Motor Trade Association of Western Australia Inc.

CHAIR—Welcome. The committee has before it submission No. 67; are there any changes that you wish to make to it?

Mr Fitzpatrick—No.

CHAIR—The committee prefers all evidence to be given in public, although the committee will also consider any requests for all or part of your evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Mr Fitzpatrick—Thank you. I am cognisant of the terms of reference for your committee and I will focus primarily on the second, third and fourth items in that document. As an opening statement, I would like to say that many small businesses in Australia are under the threat of extinction and that the consequences for the Australian people are likely to be extremely severe. They will involve job losses, erosion of our tax base through the repatriation of profits overseas by large corporations and a loss of control by the parliament over the economic wellbeing of the nation.

I have handed to each of you in schematic form some of the forces that are actually driving small businesses to the wall right now. In the case of our industry, here in Western Australia alone we are losing up to three small businesses a week, many of them due to these pressures. In our industry in particular we are heading for a world of four major oil companies, five to six insurance companies and six to eight car makers. We are dealing with large, vertically integrated corporations, and these people in many cases do not even see Australia or the Australian government on their radar screens.

I see that, unless we are able to redress the imbalance of power that exists between small businesses and large corporations, we will find the elected representatives of this country, people like yourselves, as the biblical tax collectors, sitting there arguing over how to divide up the tax cake—and a shrinking cake that will be, because of the capacity of these large corporations to expatriate profits offshore or to arrange their affairs in this country so that they are able to pay the minimum of tax.

I would like to go through some of these issues very briefly. If we look at the globalisation effect, we are now seeing in our industry quite small businesses being run out of town, virtually, because of decisions made in boardrooms as far away as Detroit, Munich, Stuttgart, London and so on. We have an inept competition policy that has left small business in a straitjacket, unable to collectively negotiate with large corporations. Under the Trade Practices Act, it has almost no

power to be able to deal with these large corporations. The imbalance of power is quite stark and it is an area that we are certainly going to take up under the Trade Practices Act review.

We have federal and state taxation systems that are impacting on small business. We were promised a reduction in state taxes as a result of the GST. Sadly, state taxes are increasing in most areas in our sector. It is a matter of some concern to me that the direct and indirect tax take percentages are almost unchanged from what they were when we implemented the GST. It is my understanding that by the year 2004 the percentages of direct and indirect tax will be exactly the same as they were at the start of the implementation of the GST. So all the pain that our businesses have been through will be for naught and, because of bracket creep, we will be back to the same percentages of direct and indirect taxation.

We also have the black economy. I am astounded daily to hear of press releases from the ATO about going after tax-effective schemes. They have done a complete sweep through the panel beating industry in our sector, only to find that all of their fears were not realised—that there was genuine payment of tax there. They are now focusing on taxpayers who are claiming work expenses, and there has been a lot of publicity about that. Yet, at the same time, they seem to be largely ignoring the huge hole of the black economy. In our industry it is massive. I have been undercover with a TV crew and have discovered this. That has been the subject of current affairs programs here. I have taken people from the tax office, Centrelink and other places to see people at auctions and other places who are operating today in the black economy of car dealing and car repairing, and very little is being done about it.

We have an enormous problem with red tape. With the cooperation of the Small Business Development Corporation here we were able to do a pilot study—and I would be pleased to pass on to you some of the results of that—which has shown the enormous cost of red tape to small businesses. We constantly hear platitudes from Canberra about cutting red tape, but in reality it does not occur. We are seeing quite a substantial reduction in the numbers of businesses within our sector caused by many of these factors. For example, in the body repair industry there were 6,700 businesses nationally in 1997 and in 2000 there were 5,038; in Western Australia, there were 650 businesses in 1997 and three years later there were 468. That is a 28 per cent reduction in three years.

Senator BARNETT—Which businesses are they?

Mr Fitzpatrick—That is in the body repair or smash repair industry. We had 20,000 service stations nationally in 1970; in 2002 we have 8,000. So we have gone from 20,000 to 8,000 in about 30 years. In Australia there were 7,000 fuel distributors in 1970; in 1996, when the last figures were taken, there were 400. To give you an example of one oil company, Shell, prior to 1993 there were around 600 independent franchisees in the Shell chain. Now all of these chains are controlled by three or four major companies. One, Brumah, operates half of Victoria, all of South Australia and the large chunk of metropolitan Western Australia. In New South Wales, Misearl and Colchester are running those operations. So we are now seeing oil companies dividing Australia up into three or four major regions. Many of them now look at the world in three or four major regions, so decisions about the way fuel is retailed in this country are made offshore in places like Singapore or South Africa and so on. When it comes to talking about the Australian government and the interests of the Australian motorist, we are not even on the radar screen as far as they are concerned.

This all impacts further down the line. What is happening to young people trying to get into our industry? Last year, 29 people came into the automotive body repairs industry and this year 12 have done so. I can go through a whole list of information: automotive electrical fitting went from 36 people last year to 23 this year and automotive mechanical vehicle servicing, level 2, went from 14 last year to six people this year. The only area where things have remained roughly the same is in that of the automotive engineering tradesperson—in other words, the mechanic. For the rest, apprentice numbers have fallen by 50 to 70 per cent in many cases. It does not augur well for young people trying to make their way into our industry.

The solution: the first thing we have to do, and we have to get really serious if we are going to see small business survive within this global picture and under the new economy forces that I have mentioned to you previously, is amend the Trade Practices Act. I have handed to you the *Motor Trades Association of Australia: a small business charter of fairness*. There are 10 points on that which we believe would, if implemented, restore some of the balance or get rid of the imbalance that currently exists between large and small business in this country. That is the charter of what we want to achieve and I have also handed to you the ‘how to do it’ kit, if you like. That spells out for you what parts of the act need to be amended and what amendments are needed. It is not just some sort of wish list; it has been carefully considered. We consulted extensively and a lot of it is the work of Mr Hank Spier, a former CEO of the ACCC. It is something that we have a strong feeling about.

I have handed out to you some charters of fairness for just three sectors within our industry: the body repairers or the panel beaters, if you want to call them that; the Australian Service Station and Convenience Store Association, the service station operators; and the franchise car dealers. Do not forget that car dealers are caught up in all of this as well. Many of those people operate businesses in which they have invested anything up to \$20 million, and all of their franchise agreements have them on a contract of three months notice to quit by either party. I do not know whether people realise that. Those businesses operate on a profit of about one to 1½ per cent of turnover, so they rely very much on volume. The charters of fairness are very important to us.

We would like to see more industry codes mandated; we find it very difficult to get large corporations to deal with us on a voluntary code. We would like to see federal legislation backed up by state fair trading laws that outlaw unfair and unreasonable contracts. It is interesting that in New South Wales there is such a law but that it falls under the Industrial Relations Act. Small businesses are seeking relief under that act; section 106 of the Industrial Relations Act of New South Wales is currently being used by some members of our industry as a means of redressing unfair, unreasonable and, at times, unconscionable contracts.

We would like to see a lot more of small business being consulted. In terms of the fiasco of the GST and the reporting process for that, I met the people from Treasury who helped design some of that and they had no idea of what it meant to run a small business. I think there is a real danger that, if these things are done by bureaucrats in Canberra without proper consultation with people out there who are working in small business, things will go off the rails. You probably should give some consideration to forming a small business advisory council or something nationally. There are already coalitions being formed, and our industry is heavily into those at both state and national levels. I am sure we would see a much better focus on small business, even in the utterings of the budget. You will see in my initial report to you that, in the

previous budget, small business was not even mentioned and that, in this budget, there was only a passing reference to it. We are talking about business that represents a third of the GDP and about 75 per cent of the employment in Australia, and it does not even rate a proper mention in our federal budget each year.

We need training and investment of funds to assist small businesses to be more effective in the way they go about their business. Too many of them in difficult times go back to being tradespeople and take their eye off the ball, and then they are obviously ready pickings for larger corporations that come to see that. Finally, we need to do a lot more than just pay lip service to getting rid of red tape at both state and federal levels. That would probably suffice as my initial remarks, but I would be very happy to answer questions on any of those matters.

CHAIR—Thank you, Mr Fitzpatrick. Ms Simons, do you want to add anything?

Ms Simons—No, thank you.

CHAIR—Mr Fitzpatrick, I understood you to say that, in your view, since the introduction of the GST the black economy is actually flourishing.

Mr Fitzpatrick—Yes.

CHAIR—Is it flourishing to a greater extent than you were aware of prior to the introduction of the GST?

Mr Fitzpatrick—Absolutely. The GST has brought about an administrative system which means that people who are on the cusp move out of legitimate businesses. The typical example of that would be a repairer who might run a small repair shop who decides that he is sick of sitting up all day Saturday or at night-times filling out GST forms to complete his BAS. It is quite easy to build a shed in your backyard and just keep your customers and close the business. I have seen examples of that. Backyard car dealerships have flourished in this state. The record-keeping requirements for car dealerships—for used car dealerships particularly, and these are the ones which are likely to drift into the black economy—are fierce. New Zealanders were smart enough to have one type of input tax. We have notional and real input tax credits, and we have to keep a double accounting system on them. We have to track them to each vehicle. People are caught up in a massive amount of record keeping and there is a temptation for them to simply disappear into the black economy.

I am not an expert in other sectors, but I know from talking to my counterparts in the building industry that they have the same problem with people doing renovations to houses, and all sorts of other areas. There are two prices: the GST price or the non-GST price. Sticking to my own industry, yes, it is alive and well and flourishing. In the repair industry and on the dealership side, there are large numbers of people who operate illegal businesses, part-time businesses. If you buy a newspaper here called *Quokka*, you will find a number of similar telephone numbers of people who are operating unauthorised wrecking businesses, unauthorised car sales businesses and so on. It has encouraged it, yes.

CHAIR—When you talk about red tape, can you give us some examples of what you are actually talking about. We hear this term constantly and we were promised between three and

four years ago that it was going to be cut by 50 per cent. You say it is actually increasing, but we do not have too many definitions of what this red tape is.

Mr Fitzpatrick—I am happy to table a copy of this report, which was done as a survey of areas like the BAS, group certificates—all these things that people are finding unwieldy. It is broken up into Commonwealth and state governments. You will have to excuse my scribbled notes on it.

Senator BARNETT—Any local; or just Commonwealth and state?

Mr Fitzpatrick—Commonwealth and state. The only survey that I know has been done is this one that we did in conjunction with the Small Business Development Corporation. The corporation is now in the process of trying to implement the findings of that study. We held a breakfast to get people to come along and talk about this, and it was a very animated breakfast, I can tell you. Small businesspeople were very animated about the amount of time they spend filling in forms in duplicate and triplicate. Quite often they have to do things twice to get the same information across.

Senator BARNETT—Was that that breakfast referred to?

Mr Fitzpatrick—That is the one.

CHAIR—The Small Business Development Corporation are appearing next, so we can talk to them about it.

Mr Fitzpatrick—They can probably tell you how far they have got with that.

CHAIR—I want to move to a couple of issues that were raised in your submission. You talk here about a decision in the federal budget which resulted in a withdrawal of support funds for Automotive Training Australia. What specific program was that?

Mr Fitzpatrick—It came under the portfolio of the Minister for Education, Science and Training, Brendan Nelson. Right at the bottom of his press release in relation to the federal budget, it said that Commonwealth funding was withdrawn for the industry training advisory bodies. In Western Australia there are about 15 ITABs. For many years we have tried to fund the automotive ITAB here ourselves. It has been a very difficult undertaking, because we have had to find the money to employ somebody full time, to meet all the expenses and so on. We have managed to do that. The Commonwealth money was not being passed on to us. The state was redistributing it to other ITABs. We were told that we should remain with retail, but we found that we had very little in common with hairdressers and other people who are in that ITAB. This industry in WA turns over some \$10 billion a year. It is bigger than the state budget. We thought we actually warranted our own industry training advisory body.

Since that has been funded, I have been on national committees to try and improve the image of the industry to get young people to come into it and to overcome the skill shortage we seem to be heading for. We have set up a pilot program in Bunbury and we have got the schools, colleges, TAFEs and the industry all working together down there with the new funding that we have been able to get hold of. Then, just as we got started, we find that that funding is going to

be cut. The state is saying that it will pick up that funding until the end of the year—what happens after that, we do not know. It may go back to the process of saying that some of the ITABs have to merge. We are not clear at this stage where that leads. But the Commonwealth funding is cut by about 70 per cent this financial year and then it disappears completely from 1 July 2003.

CHAIR—Was there any consultation before these cuts took place?

Mr Fitzpatrick—No.

CHAIR—Have you been given any rationale for the cuts?

Mr Fitzpatrick—No, not at all. We have a meeting with the minister when he comes to Perth next week and we will certainly be taking that issue up with him.

CHAIR—On the web site of the Employment and Workplace Relations portfolio there is a fact sheet with a small business overview. It sets out what the government promised in the 1998 election—called ‘A small business agenda for the new millennium’—and a range of reforms that are proposed and programs for small business. We have not got time to go through all of them, but could I ask you to have a look at that web site?

Mr Fitzpatrick—That is a federal government web site?

CHAIR—Yes, it is a federal department. The small business portfolio has probably moved over into DEST. But have a look at some of those programs, which include the removal of red tape and fair trading reforms. Perhaps you might give us a response in writing as to how you see those programs actually working and whether any of them are—

Mr Fitzpatrick—Can I have the details of that web site?

CHAIR—Rather than reading it out to you, perhaps I will give it to you and you can copy it. Perhaps you might give us a quick overview as to which of those programs are effective in addressing the issues that they seek to address and which of them involve just rhetoric and are not actually being put into practice.

Mr Fitzpatrick—Yes.

Senator BARNETT—Thank you for your submission, and I congratulate you on your vigorous and comprehensive presentation. Your national body is presenting your submission to the TPA review, and I congratulate you on that. I will be following through on that and I look forward to monitoring that progress. Malcolm Little, your associate in Tasmania, is a very professional and good advocate for your industry in Tasmania. I have worked with him before and I have enjoyed that relationship.

You have mentioned in your submission a number of issues holding back small business employment. You mention industrial relations as one of those and state:

... small business is not allowed to bargain collectively in the interests of intra-industry efficiencies—but unions can.

You have also talked about maternity leave and the cost and affordability of that. Can you just outline a little bit more in that regard for us?

Mr Fitzpatrick—I think that for any reforms that are brought in by government there should be some cost-benefit analysis done in relation to small business. The reason is that small businesses typically employ five to seven people and they have a very limited capacity to absorb new costs. The problem that many of them face is that they have an even smaller capacity to be able to pass on those costs, because quite often they are dictated to by an insurance company, an oil company or a car maker as to what their profit margins are going to be.

When we have an impost—like we have here with the state industrial relations legislation, where suddenly all the workplace agreements are about to be cancelled—they then have to go through a process of negotiating employer-employee agreements. Some employees may go down the path of an award and some may want some other form of agreement. All of this takes time and money that people can ill afford to spare in running their small businesses. They run on very tight margins.

The other issue is in areas such as maternity leave. There is not a capacity for small businesses to pay out that sort of money. They cannot carry an employee for that length of time and still remain profitable—some can, I am sure, but the vast majority of them cannot. If they had a capacity to put up their prices, maybe the consumer ultimately would pay, but I can tell you that in the body repair industry the hourly rates paid by the insurance companies—which are all remarkably similar, by the way; no collusion, but all remarkably similar—have not been increased for 10 years.

Senator BARNETT—That is a good response; I appreciate that. With regard to your earlier comments on red tape and the cost of red tape, do you have any specific evidence of that? Is that set out in this report, for example?

Mr Fitzpatrick—I think the report gives illustrations of the numbers of times people have to double handle issues. We have a modified BAS. It is still not perfect, but the initial BAS was a nightmare for people. As you probably well know, when most people are going home to rest that is when the real work starts for many people in small business—that is when they have to catch up on the paperwork.

Senator BARNETT—Would you have done any analysis of your industry in terms of the licences, permits and approvals that may be required to establish and then to have a continuing operation of your members?

Mr Fitzpatrick—Yes, we have looked at that at different stages.

Ms Simons—We have not done a complete analysis. We do have a record of the number of licences for each of our sectors, which the Small Business Development Corporation provided. The state based red tape is quite considerable.

Senator BARNETT—In Tasmania, there are up to 20 separate licences, permits and approvals for a petrol station and general store. Would that be similar in your state?

Mr Fitzpatrick—It could well be. We are talking about licensing repair businesses here. The government has put a Green bill into parliament to do that. I would like to think that, as part of the licence of that business, we can incorporate a lot of other licences. For example, we run a system of licensing people for the collection of ozone depleting gases. That is very important work but, at the same time, it is yet another licence they have to comply with. We need to be able to incorporate all the other product control type measures that have licences into one licence.

Senator BARNETT—If it is not too burdensome for you, would it be possible to get a summary or a list of the licences that are applicable to your standard member and to let us know the full list of those that are available?

Mr Fitzpatrick—Sure.

Senator BARNETT—Finally, you have mentioned that, by 2004, the direct and indirect taxes will be the same following on from the GST. Do you have any evidence to support such a claim?

Mr Fitzpatrick—Yes. I was following with interest the web site of the Institute of Company Directors, and I encourage you to have a look at that. There is a presentation on there by the economist and CEO, Phil Ruthven, who has done the figures on it. He says—I followed this up with other economists and they reported the same—that, as a result of bracket creep, the direct tax take is in proportion with what it was before.

Senator BARNETT—So we could refer to the web site of the Institute of Company Directors for that information?

Mr Fitzpatrick—Yes.

CHAIR—Does that include state and federal indirect taxes?

Mr Fitzpatrick—It is simply an analysis of the national direct and indirect tax take.

CHAIR—Including state?

Mr Fitzpatrick—No, I think it is federal indirect. One of the things I must also say about the GST is that there is a myth perpetuating out of Canberra—this is one of the things behind this ITAB funding that we were talking about earlier—that the states are better off now as a result of the collection of the GST. That is not so. I think we need to look at that very carefully. I am on the state tax review committee and we are about to be briefed on that in the next few weeks. As I understand it, the formula for funding the states is pretty much the same as it was prior to the GST.

Senator BARNETT—Public liability insurance has been referred to in a number of submissions. Do you have a response to the state government's announcement yesterday on their package of reforms?

Mr Fitzpatrick—No. I was in Canberra yesterday, so I have not had a chance to review them, except to say that there are serious problems in our industry. Certain areas are hot spots—like the tyre retreaders, tyre dealers and other people—but it is an ongoing issue. My view on it is that we should be trying to redefine negligence through legislation. I think we almost need something like a ministerial council on negligence—if you want to call it that—that is constantly reviewing what is being interpreted by the courts as negligence, and we should be defining what the community standard is for that through state and federal legislation.

Senator MURRAY—I am opposed to bracket creep and I have been looking at ways of funding it. One of the indirect taxes that we removed was the indexation of fuel. What would you say if I said to you that one possibility of contributing to the end of paying for bracket creep would be to reimpose indexation on fuel as an indirect tax?

Mr Fitzpatrick—You are probably aware of my, at times, violent opposition to the indexation of fuel because it was another form of tax by stealth. We started out with a tax of 6c a litre to fund some roadworks and finished by heading towards 40c a litre and climbing. We were going to finish up like some of the underdeveloped countries in the world purely on the amount of tax that we were paying. If you took some of the tax out of fuel that we pay in this country we would certainly have the lowest prices in the world because, despite the, at times, bizarre and anticompetitive behaviour of the oil majors, they are still able to provide a reasonable product at a price. It is just their retailing and wholesaling habits that bother us. But it is tax in another form. You are taxing people at the hip pocket every time.

Senator MURRAY—It is indirect though.

Mr Fitzpatrick—Yes, it is indirect. I am not keen on it because it obviously impacts on a shrinking service station market out there and on independent operators. So, in effect, if it starts to creep up and people buy less fuel that could be another nail in the coffin for a lot of those smaller independent fuel retailers.

Senator MURRAY—On another topic—as you probably know I have strong views in this area, too—I am not a great fan of our federal system as presently constituted. What areas that are presently both national and state legislation or just state legislation do you think should be just national legislation?

Mr Fitzpatrick—The problem that we have in many cases is that we do not have effective Commonwealth legislation, so the state seeks to intervene and that creates problems. The fuel industry is a classic case of this. There is a genuine need for some sort of oil code or reform of the petroleum industry in this country and yet we have all of the states now fiddling around with terminal gate prices and maximum wholesale prices. One of the issues that is a really hot topic here at the moment is the capping of retail fuel prices in regional areas, which is going to be a disaster for a lot of small retailers.

So that sort of duplication is going on. The state government is enacting fuel legislation, which it should not have to do if the federal government was prepared to bite the bullet and take on the oil majors and implement a proper oil code. I think that can be applied to a lot of other areas—fair trading laws, the Trade Practices Act and so on. I would like to see a lot more fed-

eral legislation mirrored in the states rather than the states trying to pick up and run with issues that the federal government has not taken on.

Senator MURRAY—I do not think you attended to it in your submission—at least, I do not remember you doing so. Would you mind giving it a little more thought and perhaps dropping the committee a note on that indicating those areas where you think it needs either to be harmonised or to be just state or just federal? Industrial relations is one area in my mind—because you have both state and federal in the state—but I am also thinking of areas like insurance law. The market for insurance companies is mostly national—most of the people who write business are national. Yet the contractual obligations are often determined by state laws, and the recourse at law if there is a problem is under the state judicial systems, so you get a different outcome in New South Wales to here. With the changes in the insurance world that are occurring and the responses of governments, I think it is going to become even more confused, not less. I would be really grateful if you would give that some lateral thought.

Mr Fitzpatrick—I would agree with that, hence my comment earlier about having a federal law that defines negligence, sets the parameters and watches where the courts move on that. The courts will take a lot longer to get that right; with the legislative pen you can move a lot quicker. The problem is that there is a lot of state law that needs to be changed. For example, in this state we have an Occupiers Liability Act. The obligations under that act are quite severe. They mean that if you hold functions or, as we often do in our industry, have motor shows and so on, the very fact that people attend—they do not have to prove negligence or injure themselves—means that you owe them a duty of care. The Supreme Court has read it down to that level. The act is only about five pages long, but that piece of legislation is dynamite and is what causes a lot of these public liability blow-outs. The very fact that someone is on your property, whether or not they are invited, as in some cases, means that you owe them a duty of care. We need to have legislation at a federal level that is mirrored down to state level and can control those sorts of situations.

Senator MURRAY—Would you give some thought to whether the federal government should sponsor a constitutional convention which would simply look at unnecessary duplication, cost shifting, overlapping and inefficiencies—the sorts of things we have been discussing?

Mr Fitzpatrick—Yes, I would strongly endorse that. I am in the middle of doing something right now that illustrates that there is a lack of concerted and coordinated effort. In the environmental area, dryland salinity is dear to your heart; trying to get the funds through Canberra down to actually doing something on the ground is a very difficult exercise. The state government here has been very slow to reach agreement with the federal government on this. In the meantime the dryland salinity problem increases. We have an innovative program sitting there ready to go and awaiting Commonwealth funding. It would use old tyres which are now simply put into landfill as a means of draining saline land. It is an excellent proposal yet we have been trying for several months to get funding for it. It gets caught in Canberra. Then it takes time to filter its way down—no pun intended—to projects that are actually going to work on the ground.

This is something which is worth trying. We have to dispose of a million tyres a year. If we can use those million tyres to fix a major environmental problem—so we take an environmental

problem and find a major environmental solution to it—more power has to be given to our hand to do it, but it is very difficult to try and get that money to filter through the system. Yes, I would agree with you: there are too many blockages and there is too much duplication. There is a need for a much more streamlined approach to the way legislation is enacted at state and federal level.

CHAIR—You mentioned the insurance industry and related problems. I do not have time to go into that today but perhaps, when responding to some of those other questions we put to you, you might also put your comments in relation to the insurance industry in writing to us.

Mr Fitzpatrick—Yes.

CHAIR—Thank you for your attendance.

[1.44 p.m.]

ETRELEZIS, Mr George, Managing Director, Small Business Development Corporation

MAURICE, Mr Andrew James, Chairman, WA BEC Managers Association

CHAIR—Welcome. The committee has before it your submissions, numbered 47 and 40. Are there any changes you wish to make to them?

Mr Etrelezis—Not on behalf of the Small Business Development Corporation.

Mr Maurice—No.

CHAIR—The committee prefers all evidence to be given in public, although the committee will also consider any request for all or part of evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Mr Etrelezis—I will keep it brief rather than reiterate all the points we made in our submission. Then I will hand to Andrew to perhaps elaborate on the role that his organisation plays in assisting small business with employment issues. In terms of the first term of reference, the key point is that from the time that a small business places an advertisement to recruit an employee it starts the process of being subjected to regulation that impacts on its operation. The advertisement could contain a word or something else that could offend various pieces of legislation, not the least being the equal employment opportunity legislation.

Following that, a range of direct and indirect costs related to regulation start from that time. They include leave, which is usually governed by industrial relations legislation. These days, from the small business perspective, given its size, leave is quite an onerous exercise to accommodate within the profit margins of a business. You have annual leave and sick leave but you now have the extension to bereavement leave, parental leave, long service leave—including pro rata—and the prospect soon, we believe, of maternity leave.

In the area of taxation, from a direct costs point of view, even though the exemption thresholds have risen over the last decade, there are still state payroll taxes applicable to some small businesses and there is also the fringe benefits tax. There is superannuation, which from 1 July went to nine per cent. In regard to insurance, compulsory workers compensation is the main legislative provision. In terms of risk, you have to look at the occupational health and safety provisions within the workplace and all that accompanies that in terms of a direct cost, including training. In terms of training, we have apprenticeships and traineeships and we have to abide by the regulatory requirements.

In terms of indirect costs, apart from the records necessary that are subject to inspection through government and union authority, you also have the pay-as-you-go obligations to complete and they will include other withholding declarations, including child support and garnishee issues. In terms of the risk in the workplace for the employee, there is legislation that

covers everything from smoking, equal employment opportunity, noise, alcohol and drugs in a lot of small business workplaces and bio hazards. There is even legislation to the extent that when the employee leaves your employ you are also subjected now to issuing things like separation certificates on behalf of the relevant Commonwealth agency. I would like to reiterate that the extensiveness of government regulation has a huge impact on small business employment. We appreciate that regulation is needed, but it should be easy to understand and not unnecessarily onerous or time consuming. It needs to be justified and that justification needs to be communicated to the small business community.

On the second term of reference—the special needs and circumstances of small business—in short, the word ‘empathy’ is at the top of our list, followed closely by ‘awareness’, ‘flexibility in regulation’, ‘fairness’ and ‘time to adapt’, especially when it is quite a major change as we have seen in recent years with the taxation legislation and, in this state, with the prospect of significant industrial relations changes.

On the third term of reference—complexity and duplication of regulation across the three tiers of government—aside from the points we make in our submission, essentially it is all the same to small businesses. They do not differentiate between the Commonwealth imposing, the state imposing or local government imposing. The fact is that they all are imposing. They are not going to differentiate. One initiative in this state that has assisted in that area is the very good business licence information system that is now available via the Net. It incorporates for the first time, after many years of trying to get it, Commonwealth, state and local government regulation in the one area. That is a free service. People can find out which licences they need and which regulations they are subjected to at the three tiers of government. In most circumstances they can also download information. Where they cannot do that, a free service through the Small Business Development Corporation provides the relevant forms.

The other area that we are looking at in preventing some duplication is a recent initiative through the small business portfolio. Western Australia has taken the initiative and developed a web site called the program information sharing mechanism so that small business jurisdictions across Australia can look at what is being developed in each of the states and territories to benefit small business. Hopefully, they can exchange information and intellectual property and avoid the prospect of duplication so that one state is not necessarily trying to do the same thing as the other states without learning from each other. It includes the Commonwealth as well.

Finally, the fourth term of reference refers to measures that would enhance the capacity of small business to employ more people. Of course, the environment has to be there for a small business to think about taking on employees. In terms of the barriers, we are looking at the possibility of a holistic approach to user-friendly regulation. In this state, we have also taken an initiative at cabinet level that each cabinet submission that has a box ticked acknowledging that the cabinet decision will impact on small business must now be accompanied by a small business impact statement. We have made that nice and simple for agencies to complete. But more importantly, it does direct to cabinet that the people putting up the submission have achieved the necessary consultation and looked at the various options before presenting that particular submission. So when cabinet ticks it off it is aware of the impact that it is likely to have on small business.

In the same area, education and awareness, we found that through our agency an enormous number of inquiries—close to 20,000 a year—are purely in respect of compliance requirements; that is, regulation or licensing. Aside from the sorts of issues that the previous speaker spoke about, small businesses that have done a bit of work in terms of red tape busting, as we call it, look at response times to get to the regulatory authorities. That is, they have difficulty getting hold of the right person within a reasonable waiting time, whether in writing or by phone.

Finally, there is flexibility. The classic example—we have alluded to it in our submission—is apprenticeships and trainees. Generally governments at all three tiers tend to make decisions based on ‘one size fits all’. Small business is quite unique and quite often that size does not fit small business yet it is subjected to the same type of legislation and regulation. That is one area where it is subjected to measures when perhaps there should be a bit more flexibility to allow for the type of operations it runs.

Mr Maurice—Thank you very much for allowing the WA BEC Managers Association—or the BMA as we are known—to address this Senate committee into small business employment issues. It is an area which is of extreme interest to our membership. The BMA is an organisation which represents the interests of business enterprise centre managers in Western Australia. The committee has received our submission which was based on some work prepared by the Centre for Regional Enterprise and Innovation—or CREI. As we have some common members it is quite similar. We understand that the committee is meeting with them tomorrow in Albany so we will not go over the submission but rather expand on the role of business enterprise centres in the context of small business employment. I provided to the committee a copy of the *BEC 2001 Operational Summary of the Business Enterprise Centre Network in Western Australia* for its information.

In the time allocated I would like to run through these issues: what a business enterprise centre is; what roles BECs play in the local community; how we provide help to small business in regard to small business employment; and some suggestions for a way forward. Our business enterprise centre is a not-for-profit community based organisation which was established to assist both existing and potential small business proprietors with the provision of general information, guidance and support to assist with enterprise establishment or enterprise growth. The BEC network in Western Australia comprises 37 business enterprise centres from Wyndham in the north to Albany and Esperance in the south. There are also 10 BECs in the metropolitan region of Perth. Each centre is community owned and run by a management committee comprising local representatives from business, private sector organisations and local government. Because BECs are community based organisations they are able to quickly identify issues that have potential to impact on local business and provide timely and relevant responses.

Most of the services that BECs offer are free to potential and existing small business proprietors because we operate with funding primarily through the Small Business Development Corporation, but we also receive generous sponsorship from local government and the private sector. BECs are also able to generate their own sources of funding by providing training on small business topics. We also sometimes operate small business incubators. Even though there are only 37 BECs in Western Australia, there are some 130 business enterprise centres throughout Australia.

I would now like to touch on what roles BECs undertake in the local community. The aim and objective of BECs is to diversify and stabilise enterprise opportunities by assisting local business enterprises with entrepreneurial capacity, by fostering business talent and capitalising on innovation and ideas and by improving individual and regional economic diversification. In other words, we provide services to potential and existing small businesspeople with the ultimate aim of growing employment and creating wealth. This happens on three fronts: firstly, by job creation through new business starts; secondly, by expanding established enterprises we also help them to create jobs; and, thirdly, by reducing the failure rate of small business and, thus, preserving existing jobs.

Some of our statistics from 2001 show the impact on jobs in this area. In the year ended June 2001, BECs in Western Australia assisted 1,879 businesses to start. This had an estimated value to the state of about \$470 million. The economic activity generated by new jobs created as a result of the new business starts and by our work in assisting established businesses was over \$208 million, and BECs assisted in the creation of 4,754 jobs. We feel this is a sizeable achievement and one which could be built on if BECs are to receive adequate resources to provide further support to small business.

Now I will basically touch on how we help small business with job creation. We provide services to small business with respect to small business employment at two levels. Firstly, we help small businesses on a macro level with strategic and business planning. We assist them with market research and feasibility analyses so they can make informed decisions on whether they actually start in business or whether they need to take on employees. If we are dealing with established businesses and advising them on how to grow a business, we obviously need to talk about employment and more strategic issues associated with that employment. Secondly, we help the potential or existing small business person try to understand the many different issues that they need to address before they put on their first employee. They need to understand issues such as those that George has already alluded to—workers compensation, industrial matters, unfair dismissal, superannuation, occupational health and safety, recruitment, selection, remuneration, taxation, just to name a few—but BECs try to provide this information to them so that they can easily understand it and so that they can be guided through that labyrinth of information.

Finally, we believe the way forward is that that BEC network provides this much needed guidance to small business in the area of small business employment from a strategic and functional point of view. Our statistics with regard to assisting this sector, we believe, are commendable and, with further support to our network, the work we undertake could be expanded. We believe that BECs play an important role on the demand side of the employment equation. Increased emphasis and financial resources provided to organisations that assist in creating demand for employment, such as BECs, should be encouraged and supported in the national interest.

CHAIR—You talked about 130 BECs across Australia. What states other than Western Australia have BECs?

Mr Maurice—Every other state has business enterprise centres.

CHAIR—Are all funded and operated on the same basis as yours?

Mr Maurice—No, all have quite different models of funding. In Western Australia, they are funded primarily through the state government, through the Small Business Development Corporation. Each BEC, because they run independently, seeks funding from different sources as well, because they are community based. It might be from local government, it might be through sponsorship from local businesses, it might be running projects or it might be a project through a federal government program.

CHAIR—Do you have a list of where the 130 BECs are located?

Mr Maurice—Yes, I do.

CHAIR—Could you provide the committee with that?

Mr Maurice—I can provide that information.

CHAIR—Thank you. Do they operate similarly to the old NEIS consultancies or on a totally different basis?

Mr Maurice—Totally differently. Some Business Enterprise Centres are managing agents for the New Enterprise Incentive Scheme and others are not. One sector of the market that we work with is trying to get unemployed people into employment. For instance, the 27 BECs in regional WA are NEIS managing agents. The metropolitan ones are not, because we did not win the contract at the tender. My Business Enterprise Centre, which is based in Balcatta, acts as a mentor under the NEIS for the local managing agent.

CHAIR—In terms of the work you do with small business, to what extent is funding growth a major impediment to the employment opportunities of a small business? In other words, if a small business determines to try to grow, how big an impediment to that growth is the issue of raising funds with respect to the ability to raise them through the banks and the demands of banks for security for loans et cetera?

Mr Maurice—It is obviously a very important area because a lot of the very small operators do not necessarily have the security and the funds to fund the growth, so we talk to them about innovative ways to fund the growth. It might be through incremental change rather than through major change. Yes, where they get the funds from is a huge issue. Do they get them from a traditional source such as a bank? Do they get them through some sort of equity investment such as Business Angels or through family or friends? There is very little funding available through government, at both state and federal levels, for funding business growth. It is a difficult area for them.

Mr Etrelezis—In our experience—and we agree with Andrew in terms of the sourcing of the funds—inevitably, the management of the growth is more of a barrier than is access to the finance to finance the growth. Unfortunately, there was a classic example at the state business awards last night: a previous small business award winner—and a national winner at that—has gone into receivership. It is clearly a case in which the access to finance was there but the management of the finance and the growth was not. Usually, the aspect that catches them out is the cash flow. To disturb that cash flow, you have either a very poor debtor to creditor system in place or one bad contract, which is all you need to upset a cash flow projection if it is not

balanced to allow for that contingency. It does not matter how good the business is. We see this time and again: successful businesses can go out of business.

CHAIR—Is this essentially a training deficiency?

Mr Etrelezis—I do not like to use the word ‘training’, because training is often—

CHAIR—I am using it in the broad sense.

Mr Etrelezis—Unfortunately, not many people do; they confuse training with what we regard as the training of the operator or, in other words, the transfer of operational skills. We like to differentiate and place more emphasis on operational skills, which do not get the attention that they perhaps should get in the training system per se. Recently, we were able to convince our state authority, the Department of Training, to embark on a very good system of encouraging and motivating small business employers—and it is restricted to small business—to look at operator training. Andrew’s Business Enterprise Centres are the catalysts for this; they are issuing \$200 vouchers for the first time. We are finding that, aside from the attraction for small businesses, which are astounded by the fact that the government is giving them something direct to benefit their businesses, they are using the opportunity to do training needs analysis with the Business Enterprise Centres as part of the process. We are getting a very good picture of their needs, as operators, and of whether the marketplace is able to meet their needs in terms of not only provision, especially in regional areas, but also whether there are adequate providers of the different skills in different areas. We are hoping to use that to come back and improve in that area.

CHAIR—It is an interesting issue. I will make this point, and I am happy for you to take it on notice if you want to give us more detailed information: I recently visited Ireland and I was surprised that Enterprise Ireland, which deals with small indigenous companies, spends 40 per cent of its budget on management training and management skills in market development, how to run the business—

Senator MURRAY—That is the German system as well.

CHAIR—how to interact with other businesses—all of those basic skills that you would expect people to have at least a grasp of before they open their doors but that most businesses do not have; the types of things that came out of the Karpin report, which is going back about 10 years now, but which were never implemented here.

Mr Etrelezis—In my experience over some 17 years at the small business development level, financial management has been one of the top three reasons for small business failure over that period of time—so it is a quite considerable amount of time; you would think that we would get around to addressing it some time.

Mr Maurice—It is not finance per se; it is finance management. People come to us and they want finance, and the role that the business enterprise centres can play is in determining whether that is the real issue, whether that is what they really need. Often, it is not. Often, people come to us and say that they have a cash flow problem. That is the symptom, but the causes of that problem can be numerous. We can help them to identify what are some of the causes of the

problem. It is not just, 'I need \$100,000 from the bank,' or anything like that. That is not going to solve the problem. It is more fundamental than that. It comes back to the point of management training, but we have to change the whole training culture among small business. As Peter Fitzpatrick mentioned earlier, people quite often come from a trade background and are very good with their hands or their technical skills but when it comes to operating a business they are lacking.

CHAIR—And it is a question of letting go. We had exactly that experience not so long ago when visiting a small business in Newcastle. We went to visit and the proprietor of the business said, 'My accountant will tell you about the business, because I haven't got a clue how it runs, but I know how to build these units.' He was a person with a trades background. He knew inside out the product he was developing, but he was smart enough to know that he did not have the skill to run the business and was employing someone with the skill to do it.

Mr Maurice—That is half the battle; they still need to have an overall understanding of what information they need to ask of their accountant or what they need to give to their accountants as well.

Senator MURRAY—Also, in the example just given by the chair, you are looking at a particular scale to arrive at that situation where you can spread the responsibilities.

Mr Maurice—Yes, where you can afford to put someone—

Senator MURRAY—Most small businesses do not or cannot do that and, therefore, have to learn the essential skills.

Mr Maurice—Yes.

Senator MURRAY—I must say on the record that Mr Etrelezis knows that I am a fan of the SBDC. It has been a singularly good contributor to small business in this country.

CHAIR—Unfortunately, that does not go into the *Hansard*!

Mr Etrelezis—That is unfortunate, given that we have just had a review of our organisation, as posed by the whole of government machinery exercise. The review is shortly to be tabled by the minister concerned, so we will see how we fare in the marketplace.

Senator MURRAY—I have a serious point in raising this because, as far as I understand it, Mr Etrelezis, you are still one of only two equivalent small business agencies directed by a state in the whole country. Is that correct? I thought the other was in South Australia.

Mr Etrelezis—No. That has been absorbed now into a larger department as well. The only other one is the New South Wales Small Business Development Corporation, but that operates as an advisory body, not as a functional body as we do. So in each of the states and territories now, where they might have had an equivalent of ours, those units have been absorbed into an office of small business or a subset of a larger agency.

Senator MURRAY—The advice I have received from associations and individuals dealing with your organisation is that the one-stop shop concept, coupled with continuity of expertise, has contributed very significantly to understanding how to progress small business issues.

Mr Etrelezis—In my mind there is no doubt about the model that we have made work here in Western Australia—ignoring a personal interest, of course. The fact that you have housed in the one area the range of activity from policy perspective right through to one-to-one consultation and information provision is certainly a bonus. In the area of regulation, for example, the fact that we run the business licence information service but also have responsibility for trying to address the area of duplication, form simplification and other issues is a classic example.

Senator MURRAY—I want to explore with both of you briefly the point I explored earlier. We know we have been through one of the most dramatic centuries in recorded human history in terms of change. I think that the Constitution that the founding fathers put together, with regard to those aspects which affect business life, is no longer adequate. I have the view that the country needs to pay attention to revisiting the Australian Constitution to determine what areas are properly national and what areas are properly state. You heard me earlier with the previous witness refer to issues of duplication, cost shifting inefficiencies and cost addition as a result of multiple jurisdictions. In principle, my question is: do you support that proposition, and would you support a constitutional convention or some mechanism of that sort which would meet to examine this issue and try and make some recommendations as to what should be exclusively national, what should be exclusively state and what should be in between?

Mr Etrelezis—I heard your comment earlier, and I have been reflecting on it because this is the first time it has been raised in that context. I think the intent is admirable but, to be honest with you, Senator, if you said to the average small business person, ‘We’re going to have a constitutional convention to fix your problems with regulation,’ they would just shake their heads and say, ‘Well, there’s more money down the drain.’ Really, you have to convince them that the exercise will go through and actually deliver at the other end, and I am not sure that it will. It might separate jurisdictions and jurisdictional responsibility but it will not bring an end to what we are still seeing in the marketplace.

You mentioned the word ‘consistency’. We did an exercise just last week, as part of our regulation review function, on home based businesses. We went to a lot of trouble to try to convince local government over here to have a model scheme text so that every home based business can at least be subject to the same local laws and provisions right throughout the state and, along with that, have simple forms, form design, application and everything else. The reason for that is that over the last decade we have seen a huge surge—due to the area of technology, of course—in the number of people operating from home or operating businesses within their homes. There is an inconsistency there even still in terms of registration, cost and the number of employees that are allowed to be employed. Some say ‘no employees’, some say ‘family members only’, others say ‘up to two’, ‘a maximum of three’, ‘unrestricted’. None of them refer back to the key point, which is: why have a restriction at all, provided the amenity is not disturbed? This is the sort of thing that we are up against. Attacking it at that high level might be the way to go, but I would have to consider it and consult a little bit more with small business to give you a positive answer on that.

Senator MURRAY—Being me, I have a second string to that bow, of course. I think that first of all you have to get who is responsible—and, as you know, there is a great deal of finger pointing that goes on by governments and parliaments, so I would not be easily put off by your answer, but I do think your answer reflects reality as a small business person saying, ‘How does that affect me?’ The second string to my bow is this question. I think we have a workable model available to us, in terms of the stick approach, to make people get their regulations consistent and sorted out. I refer to the federal Labor government’s introduction of the national competition policy. Whilst that has many areas you could criticise, the one key thing they agreed to do is to say to the states, local government and everybody else who is involved: ‘If you do not resolve this area of competition, we will either not give you money or dock you money.’ That very major financial penalty has resulted in very significant change in terms of various industry sectors. In my mind, if you sorted out whose responsibility it should be—for instance, industrial relations; I just cannot understand why this state has two industrial relations boards—and you then say to everybody, ‘If you don’t get a consistent regulation,’ for instance, using the example you have got, ‘we are not going to give you \$X million, or hundreds of millions,’ then I think they will sort it out.

Mr Etrelezis—That is probably more a carrot than a stick approach, but you are quite right in that there are some areas there that you could say have been among the more interesting areas where regulation reform has been achieved purely through an alternative process. In the interests of competition, we have achieved regulatory simplification and, in some cases, the removal of regulation from small business, the latest one being the accreditation of newsagencies, which has just had its restriction removed altogether by the ACCC. On a similar line, for many years now, for example, we have been battling commercial tenancy laws across Australia. Each state and territory has its own act or its own provisions, and if you want to set up in another state you have to go and learn a new piece of legislation.

Senator MURRAY—If I could use that as an example, I would see that the constitutional convention would decide whether tenancy laws should be state or federal, but then I would see a national regulation authority saying, ‘If you can’t get consistency between you, you’re not going to get \$100 million worth of federal government funding.’ It just seems to me that that exercise in the nineties, with all of its warts, has had the effect of introducing major change.

Mr Etrelezis—I think it was put in that context to small business, rather than being a convention type approach. You would have to give some examples, then you would probably find small business warming to it. What you should not mention in the same breath, though, is national competition policy—

Senator MURRAY—I understand that.

Mr Etrelezis—because that has had adverse effects on a lot of small businesses. They would react against that, saying, ‘Don’t impose another one of those on us.’

Senator MURRAY—But it is a penalty mechanism. That is what I see.

Mr Etrelezis—It is. From a mechanism point of view, you are probably correct; that is one way of tackling it.

Senator BARNETT—I want to get my head around the model that you think was a very good one—without any personal interest involved. I want to flesh out a little bit how your corporation actually works, who you report to and your advocacy role. Small business, I assume, say that sometimes there is a conflict of interest and that you do not stand up for the interests of small business in this state. Help me flesh out whether that is true in part, in whole or not at all and why this model is the best one. The committee are all interested in working out what are the best models. Who do you report to?

Mr Etrelezis—One of the reasons we believe we are the best model is that our marketplace keeps responding to the type of service we provide. That ranges from information right through to advocacy type issues. In fact, we have a dedicated advocacy service now, deliberately to link small business with the relevant government agency and for us to mediate where necessary to bring about a resolution. It is very difficult for small businesses. Quite often, they are distraught, to the extent where they cannot reach the right person or the right agreement with the regulatory agency. We do not always win there, of course; quite often that is not possible. But at least they have someone from a government perspective—though we never call ourselves a government department—working alongside them trying to resolve the issue. That is quite often missing in their set-up, especially with the resources available to them. The strength of our agency is that we have our own act of parliament which sets us apart. We are a statutory authority. We are ultimately responsible to the minister for small business and we are subject to public sector management conditions—so there are some restrictions on us.

Senator BARNETT—Would there from time to time be conflicts where small businesses want this but the state government wants that and perhaps that does not work out in that situation?

Mr Etrelezis—We have an advantage in that we have a private sector board appointed under our statute and they are at liberty to express their views as a board. If those views differ from those of the government, the minister is usually, as a courtesy, informed of that. But to my knowledge the minister has never directed the board of the Small Business Development Corporation not to take a representative view on behalf of small business.

Senator BARNETT—Can I ask for two examples, perhaps? First, have you ever asked small businesses in this state their views with regard to the payment of maternity leave? You mentioned that in your presentation. Second, have you ever asked small businesses their views on unfair dismissal laws and expressed those to your government?

Mr Etrelezis—On the first question, we received rather than sought the views of small business on that issue. As a result I went, with the minister's knowledge, to the roundtable organised by Pru Goward and her group when they visited Perth. I expressed our views alongside those of a few others and made the point on behalf of small business. We cannot say we represent all small business. In fact, we are not a representative organisation and we do not have members per se, but we pass on our views from a small business perspective from the feedback we receive, either formally or informally.

Senator BARNETT—What were your views?

Mr Etrelezis—Our view on that—and it was endorsed in a paper we then provided to the Small Business Ministerial Council meeting—was that the issue of the funding of maternity leave should take into consideration the concerns of, and impost on, small business.

Senator BARNETT—Take into account?

Mr Etrelezis—Take into consideration.

Senator BARNETT—So they were not a bit more forceful—small business did not say, ‘We cannot pay for it’? You did not go that far?

Mr Etrelezis—No, they did not say that. I think there is a general recognition of that—small businesses are not backward in coming forward. They certainly did not want to meet the costs themselves but they would look at a system which is fair and equitable across the community for them to also make a contribution, whether that is through a centralised system or through a system where maternity leave may be brought in in recognition of their special needs. Again, maternity leave is a lot easier for larger organisations to handle than it is for smaller ones.

Senator BARNETT—Exactly. I do not know of one small business organisation in Australia that supports small business actually paying for maternity leave.

Mr Etrelezis—That is right, and we would say the same.

Senator MURRAY—I do not know if there is one politician who does either.

CHAIR—That does not mean large businesses support paying either.

Mr Etrelezis—It is a separate issue.

Senator MURRAY—Just for clarification, Pru Goward is not suggesting small business pay for it; she is suggesting government pay for it.

Mr Etrelezis—No. Pru Goward spoke very forcefully to me when I made that point about small business and she said that she had never intended small business to pay for it, that the media had got it all wrong and that I had got it all wrong. She told me at length—for 25 minutes—that I was on the wrong track. I simply responded by saying, ‘Your options 4 and 5, so that is 40 per cent, clearly indicate that small business should pay.’

Senator BARNETT—It is in the paper.

Senator MURRAY—I am just repeating what I have heard her say.

Senator BARNETT—It is in her report as one of the options.

Mr Etrelezis—She is reconsidering her options.

Senator BARNETT—I am sure she is.

Senator MURRAY—I think she would be wise to do so.

Mr Etrelezis—On the issue of industrial relations, the government will at times make decisions affecting small business, in industrial relations or otherwise, and we have a responsibility to pass on the views of small business. In the case of the latest industrial relations changes we are working with the regulatory authority, but separate from it, to provide a service to small business. I see an analogy with the introduction of the GST. Small business had probably the most hostile reaction to the GST when it was introduced, and we took the view that we could either sit back and let the government wear that response or work with the government, but at arms length from it, in providing a service to small business. We ran the GST Transition Centre for 12 months and we believe the introduction of the GST was a lot smoother in this state than in other places as a result of that. We also used our BEC network through a series of seminars and information provision, and I think the strength of our network introduced that piece of legislation very clearly.

We are undertaking a similar exercise now with these industrial relations changes by providing a transition service to small business. Whether small business still objects to some of the changes, it is up to us not to argue the political point but to say, 'In terms of a practical approach to this, let's get the transition right.' It might involve feeding back to government that a change is necessary, just as we did with the GST when the first BAS statement came out. We had one look at that and straightaway spotted problems with it. They did not listen to us, of course, but in time they did and they have revised it time and time again. That is the sort of approach we can take back to government.

Senator BARNETT—In your submission, you refer to the 'virtual department' and to the Business Licence Information Service—which is an excellent service that I am aware of. Can you expand a little bit on the 'virtual department'—as I think you call it in your submission—and on how that may be enhanced and developed? Would that be a good thing for small business to be—

Mr Etrelezis—Are you referring to the licence systems being on the Net?

Senator BARNETT—Yes, I am.

Mr Etrelezis—The reason I ask that is that we are moving further to encourage small business to take up e-commerce, and the Business Licence Information Service is one of our better products in that area. That was built with the cooperation of the Commonwealth government, to their credit. We are now having a little difficulty with them maintaining that support, but that is a separate issue.

CHAIR—Is that through NOIE?

Mr Etrelezis—No, it is now through the Office of Small Business; the original Business Entry Point people. They have helped the states and territories and most have constructed a product similar to ours where you have a one-stop information source for licences. The advantage of that is that, when they tag that service, they are exposed to a lot of other services we also now provide virtually. We now have seven different web sites which deliberately target different segments of the marketplace. For example, we have one called b.generation, which is

directed at the 18- to 25-year age group, and a separate one is aimed at those who do small business research—the academics and others who are important to progressing small business issues. Our main web site is now incorporating a range of services. For example, we are the agents for business migration in this state.

We are improving the virtual site, because of the access by small business, and we are about to launch an initiative called the E-com Entry Point to encourage small business to take up e-commerce. That will have a couple of interactive programs, which is quite exciting from our perspective because it will suit small businesspeople. Whether they are at home on a Sunday or of an evening, they will be able to enter that site at their own pace and work at their own capacity to link up with small business.

Senator BARNETT—I am trying to work out whether there are specific recommendations in terms of how the Commonwealth may help or how this virtual department or your Business Entry Point concept can be enhanced. Most small businesses are now home based, so we need to be onto this e-commerce idea. Do you have any specific recommendations, proposals or initiatives that could be used not only here but also across the country?

Mr Etrelezis—From the e-commerce take-up point of view, we have invited NOIE to come and have a look at our product and our concept. They are very interested because they are developing what they call a *Pathways* guide and we think this fits perfectly as part of that pathway, if you like. We are linking closely with them. On the issue of support, for example for the Business Licence Information Service, the key issue was that some funding was provided by the Commonwealth until 30 June this year to assist us. We have to market this service, advertise it, staff it, respond to telephone inquiries as well as to Net interaction, keep the content up and link with 144 local authorities and all the government agencies to keep the data up to date. We also have a free service of mailing out this information and forms if they are not linked to the Net, so there is a fair bit of contribution at state level. To compensate us on the basis of the number of inquiries, the Commonwealth was providing us with some monetary support. That support ceased as at 30 June. That issue was raised at the latest Small Business Ministerial Council meeting to try to get some further Commonwealth support. After all, one component of that system, albeit the minor component in terms of numbers, is the Commonwealth licences.

Senator BARNETT—What is the take-up rate from small business? Is their interaction with the service good?

Mr Etrelezis—The Internet one is increasing month by month. We are now up from zero when it was introduced six months ago to around 800 a month.

Senator BARNETT—That does not sound like too many—800 a month.

Mr Etrelezis—That is in terms of the Internet take-up. Do not forget that these are actually downloads. Someone could go in there and simply have a look and that is just a hit; these are service provisions. On average on an annual basis we have close to 20,000 inquiries. Inquiries are people who are actually serviced by the service.

Mr Maurice—From a Business Enterprise Centre point of view, the site is excellent for our clients because the 37 Business Enterprise Centres do not have to have all the up-to-date information on licences and things like that. We quite often refer clients to the site.

Senator BARNETT—I am looking for evidence of the fact that this is a very successful service so that we can progress it a little further. Do you think the evidence is there?

Mr Etrelezis—There are two aspects to it. Aside from the time saving to small business and their cost in finding the right authority, you have also got to look at it from a government perspective. I would imagine if you averaged, say, 20,000 inquiries over the time we have had the system in place, it has got to increase the compliance level, from a government perspective, of people taking out the necessary licences. So it has a flow-on effect to the revenue. It also has a flow-on effect as to why regulation is there in the first place in terms of order. The other saving, of course, is that somebody in an agency somewhere is not answering a phone, attending a counter or attending to an after-hours inquiry.

CHAIR—To what extent is it interactive?

Mr Etrelezis—The licence system?

CHAIR—Yes. Are small businesspeople able to go into that system and make their application for their licences on the system?

Mr Etrelezis—No.

CHAIR—Or is it purely an information—

Mr Etrelezis—They make their inquiry on the system, which is quite interactive. It depends on the type of business you have—service stations, for example, are no longer just service stations; they can sell everything from doughnuts to papers to videos, and as a result they could end up with three licences; they could end up with 33. By a question and answer approach and by tapping the various keys a business can actually indicate: ‘Do you intend selling videos? Do you intend baking fresh food on the premises?’ and so on, and they will end up with a listing of the relative licences. Remember, this is local, so you are incorporating health and all of the other ones—state and federal. After that, though, we have not progressed to the stage where it is a one-stop lodgement source. The reason for that and the barrier to that is you will need the expertise or a system of reaching the expertise of approval requirements. One agency would never have that sort of expertise to approve.

Mr Maurice—It provides more than just the listing; it provides the actual forms as well. So you do not have to call 17 different agencies to get to the forms; you can download all of the forms. That is a great boon for small business.

CHAIR—To what extent is there capacity in that system for the people who are accessing it to feed back to you their views of whether or not they think it is adequate, where there should be improvements or where there are deficiencies in the system?

Mr Etrelezis—Most of our site—I would have to check the business licence information site—does have a provision for client feedback. Obviously, they are on the Net, so they can use email, and they can email back their comments. We have a feedback provision. I would have to check that it is specifically allocated to that site. I know that our main site has that. We do an annual survey of clients and we do ask those sorts of questions.

CHAIR—Mr Etrelezis, I think you have got to get away, but Mr Maurice is still here, so we can follow it up with him.

Senator BARNETT—I have one last question. For a standard general store or a standard petrol station, for example, do you have a list of the licences, permits and approvals that are specific to them?

Mr Etrelezis—There is no such thing anymore. You tell me what is a standard service station. It just does not exist any more.

Mr Maurice—That is the beauty of the site.

Mr Etrelezis—Even for most businesses, if you say you have got a standard retail business now, you say: ‘That’s quite clear: I’m not selling food; I’m only selling clothes. Therefore, the only licences I’ll need are those related to tax,’—and what else might there be?

Senator BARNETT—Signage.

Mr Etrelezis—Local laws signage. I will throw a smoky in: if you play music—

Senator BARNETT—Sure, video recording.

Mr Etrelezis—Video recording, copyright issues.

Senator BARNETT—Phonographic recording.

Mr Etrelezis—We quite often get asked that question: ‘Just give me a standard one for operating a taxi,’ but there is not such a thing anymore.

CHAIR—Mr Etrelezis, thanks very much. On behalf of the committee, can I also express our appreciation for your assistance in organising the business roundtables. It is very much appreciated.

Mr Etrelezis—Thank you. I look forward to seeing you on Friday morning, if I may be an observer there. It should be quite interesting.

CHAIR—Yes, terrific. Are there any further questions for Mr Maurice?

Senator BARNETT—I have one on the merits of mentoring. Do your BECs get involved in mentoring of small businesses? You talked about the jobs that have been created, and when new businesses get started it is often hard to know which way is up. Certainly in Tasmania there is a

very successful service called Mentor Resources, and I was wondering if you or any of your enterprise centres are involved in that.

Mr Maurice—Yes. It is an important area that we are involved with. We do recognise that as being an important area. One thing that business enterprise centres are often labelled with is that we only help start-ups. But we help them when they start up, we help them when they want to grow their business, and unfortunately we also help them when they want to close the business. In that in-between stage, we help from a mentoring point of view. We link in very closely again with the Small Business Development Corporation, which has a business mentor service. We act as the arm to deliver that mentor service for the Small Business Development Corporation. A number of the BECs have pools of mentors and try and match those mentors with the appropriate small businesspeople.

Senator BARNETT—Not all of them, but just some of them?

Mr Maurice—Yes. Because we are independent, some centres will find there is a need in their local community for mentoring, or they have the resources to set up their mentor program, and others will not. It depends on the needs of the local community and what that committee or that board of management for that BEC wants the business enterprise centre to be involved in. One of the difficulties that we have always found with setting up mentor programs is finding the mentors. It is always easy to find enough people who want to be mentored, but when you are trying to find mentors—who are generally unpaid—in this day and age it is very difficult.

Senator BARNETT—In your submission, on page 38, you say there is a perception by many that it is almost impossible to terminate employment for an employee who does not comply with agreed standards. Are you saying there that the industrial relations laws could be more flexible than they are?

Mr Maurice—Yes. It is a perception there. We often get people coming in who want to grow their business but who are very hesitant to take on new staff. That is one of the issues—it is not the only issue—that holds them up. My job involves going through the things they need to look at. When I give them the information to take away with them—about unfair dismissal, workers compensation, super, other taxation issues—there is a stack of information that is about three inches thick. That puts them off employing people quite considerably.

Senator MURRAY—Are those areas you are discussing mostly state areas?

Mr Maurice—No. Superannuation is federal. Pay-as-you-go taxation is federal. Industrial—over both areas; equal employment opportunity. There is a mix of state and federal. Workers compensation is a state area.

Senator BARNETT—Will you be putting in a submission to the Trade Practices Act review? It has been discussed here today as a very important review process. Is that something that you or the corporation would get involved in?

Mr Maurice—Probably not. We would probably liaise with the Small Business Development Corporation on something like that.

Senator BARNETT—Would they be putting one in?

Mr Maurice—I am not sure.

Senator BARNETT—We can ask them. Finally, in your submission you refer to the importance of public liability insurance and the concerns you have about that. Do you have a response to the Western Australian government's package of reforms?

Mr Maurice—I have not had a chance to look at it as yet.

CHAIR—Talking about the question of Indigenous enterprise, can you tell us what the BECs are doing to assist Indigenous communities?

Mr Maurice—Some of the areas which have a larger Indigenous population are more involved with those issues and they link up very closely with the state Office of Aboriginal Economic Development—that is what it used to be called; it may have changed recently. They link up very closely with that to implement some of their programs. Our business enterprise centres in the north-west, in Derby, Kununurra, Port Hedland, will deal quite significantly with those. In the metropolitan area, we have found that the business development programs for ATSIC are very difficult to access for our Indigenous clients and they are also very difficult for us to understand because they change quite regularly. If we have difficulty, as advisers, trying to follow the rules and the changes, the client, at the end of the day, has double that difficulty in trying to access some of those programs.

CHAIR—Do you have any examples that you can give us where these programs are not working or where there are difficulties?

Mr Maurice—Only anecdotes from my own business enterprise centre—just ones where there is utter frustration trying to understand the process and the time it takes to go through the process. I think that is the main sort of thing—the frustration, where they just throw up their hands and say that it is all too difficult to access those sorts of programs. Also with a lot of the programs in the past, the security that they require to get funding is significant, and I do not think it is made clear when they are told about these programs that they still need some security for finance in the normal way.

CHAIR—I appreciate very much the recommendations that are contained in your submission. It is extremely helpful, but I issue one word of warning on the last one, and that is that there is a considerable body of evidence that suggests that governments should not create networks but they should certainly support the ones that exist and help them to foster.

Senator BARNETT—The second last one or the last one?

CHAIR—It is the second last one. It is the last one on page 42. But that is just an aside.

Senator MURRAY—My impression on the state tax side is that there is not that much onerous regulation for small business. My understanding is that it is just a cost—for instance, with rates you just receive a bill.

Mr Maurice—Yes.

Senator MURRAY—I understand that nearly all small business falls outside of payroll tax, for instance.

Mr Maurice—The majority of our clients do fall outside of payroll tax.

Senator MURRAY—And fire levies and so on just come along with your insurance, don't they?

Mr Maurice—Yes. They are quite hidden. I agree: there is not a lot of compliance associated with those sorts of taxes.

Senator MURRAY—Whereas the federal taxes are very heavily compliance orientated—the FBT, your annual returns, the GST, pay-as-you-go and all those sorts of things.

Mr Maurice—Yes.

CHAIR—Thank you, Mr Maurice, for appearing before us today.

[2.42 p.m.]

HORGAN, Mrs Marilyn, Project Officer, Perth Area Consultative Committee

OLDFIELD-HIOSAN, Ms Allison Jane, Executive Officer, Perth Area Consultative Committee

CHAIR—I welcome representatives from the Perth Area Consultative Committee. The committee has before it your submission No. 33. Are there any changes you wish to make to the submission?

Mrs Horgan—No changes to the submission as such; more like additional information and enlarging on the submission. We have copies with us.

CHAIR—Is that the document that has been circulated?

Mrs Horgan—Yes.

CHAIR—Is it agreed that the document be tabled? There being no objection, it is so ordered. The committee prefers that all evidence be given in public, although the committee will also consider any request for all or part of evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Ms Oldfield-Hiosan—The Perth Area Consultative Committee is part of a national network of area consultative committees. We are funded through the Commonwealth Department of Transport and Regional Services. We are uniquely placed to respond to issues in regions and provide a conduit between the government on local, social and economic conditions. The area consultative committee is a not-for-profit organisation. We have a board of 12 people who are elected by the community. We are a link between governments and the community. Our role includes informing the government. We have a charter provided by Minister Anderson to do that. We are one of nine in Western Australia and one of 56 nationally.

We have a strategic regional plan in which there are strategies which address community self-sufficiency, and we look to encourage local and sustainable employment opportunities. Home based business success is a key part of our strategic plan, and we have undertaken a few initiatives in this area: one, a report—which I believe you have in front of you—*Policy, Regulations and Approaches to Home-Based Business in the Eastern Metropolitan Region*; two, partnering to deliver an information seminar to home based business in the city of Wanneroo; three, researching and developing a paper on the role of local government in developing a home based business strategy which will be presented at the SEAANZ conference.

I will give you a bit of background on home based business as we have identified it and as we have discussed it. A growing segment of the small business sector is home based business, and it is often isolated and hidden. It is dismissed in many instances as not truly being small business. That is actually far from true. Many of these businesses are very profitable, providing

significant income to the owners while allowing a level of self-determination for businesses away from traditional business barriers such as lease and premises issues and local government regulations—particularly where they are operating as of right—and providing employment in operations as diverse as service provision, textiles and trade delivery. The list is endless.

Local government has taken on a role to support home based business and a lot of that is done through economic development and work in town planning and local planning issues. According to the ABS statistics, there are 132,000 small businesses in WA and about 66 per cent of those are home based. We are predicting an expansion and it is predicted across the country, and that is primarily due to technology for communication and information—phones, faxes, Internet—sustainability of high-growth service and also large-scale changes in the work force. There has been quite a large growth in part-time employment and self-employment, particularly where people have been retrenched or as a result of the downsizing of middle management. It is an attractive option for people who are ageing in the work force and perhaps are choosing to make some changes to the way they live. It is a more flexible lifestyle, particularly for people with young families. There is also the undeniable attraction of low overheads and rent-free premises. That is basically our summary of where we have approached it from and why we see it as particularly interesting.

Senator MURRAY—This inquiry is focusing on a wide range of issues which affect small business employment. The area you are discussing is often regarded as microbusiness, because it is commonly a single person or a couple. Is it true that it is typically like that? Do you think it is likely to grow, so that you will in fact get more employment through home based businesses?

Ms Oldfield-Hiosan—Yes, it is true. They are primarily one-or two-person operations and there is very little direct employment—where you work for me and I work from my home and therefore you work from my home as well. That is one issue. The second part of that is that most of the employment in home based business is primarily the business owner, so, although it is a large employer, it is not a large employer of anyone outside that family business itself. I think you have hit the nail right on the head in describing the sector. It has been seen to be an opportunity to grow employment. There are opportunities where we might perhaps take one or two people into home based businesses, but there is a whole range of areas where that is a problem and that is partly what we have been researching: what are the problems with expanding employment in that area—Marilyn can talk a bit more about that—and what are some of the barriers that might be there for people to employ beyond their family?

Mrs Horgan—The ABS figures for Western Australia state that around two-thirds, between 66 and 69 per cent, of home based businesses are non-employing. Work recently done in the City of Swan and the City of Wanneroo has reiterated that, with the figures there being within one or two per cent of the same range. So two-thirds of them do not employ, and the remaining one-third employ between one and four people. Those figures are pretty constant from state down to local level.

Senator MURRAY—Based on that view, if you are going to grow this sector, you have to grow the numbers of businesses rather than the numbers of employees within the businesses.

Mrs Horgan—Yes. It seems to be more of a self-employment than a primary employment generator. The secondary employment generation is an indirect economic effect of the people

staying in their own community and spending in their own community rather than moving out and working in other suburbs. From an employment self-sufficiency perspective, that is where you get your secondary economic generators from, rather than the initial numbers of people they actually employ.

Senator MURRAY—It seems to me that this modern trend has almost gone back to the past. Many hundreds of years ago, that is how business was conducted. The blacksmith operated out of his home; the shopkeeper did the same. The guild structure, as the chair outlined, was very much home based. But in developing those businesses those people also instituted the system of apprenticeship of, typically, young boys to a master. Are there opportunities within what is often quite skilled and quite technological home based businesses for the introduction of training or apprenticeship type systems?

Mrs Horgan—From the work that I have seen being done in the outer metropolitan areas, the answer would be ‘possibly’. I have not seen a lot of evidence of that, and the reason would be that people are intent on building their businesses. They are building their businesses, working 60 or 70 hours a week. They are sole proprietors and they do not have the extra resources that are needed to take on somebody as an apprentice or trainee. From that point of view, they do not have that extra time to spend on supervision. That would be one issue that I would see with that.

Senator MURRAY—Is there a developing franchise sort of system whereby a person with an original idea that works then networks and sets up a number of subordinate home based businesses which pay a percentage of their take into the original start-up business?

Ms Oldfield-Hiosan—I have no knowledge of that kind of operation other than the traditional lawn mowing and those kinds of things where they are franchised operations—perhaps some embroidery work and things like that. I cannot comment on that.

CHAIR—A very significant portion of the home based businesses you have indicated involve self-employment and a lot of them were driven by outsourcing by industries and companies. It happened, for example, in the engineering industry with architects and draftsmen. Drafting people with computers were able to work online et cetera, so they set up as self-employed people rather than working in a factory. In some respects it has been used to introduce family friendly type employment, particularly for females in administrative areas, where they can go home, tend to the family and still work online et cetera. In many respects they are seen as self-employed or subcontractors in that environment. The thing that intrigues me is why regulation of those circumstances is such a big issue. I can understand if those people are employing someone: they have set up a backyard operation in a garage, making surfboards, and there are three or four people employed. You have an employer-employee relationship so you have issues such as workers compensation and public liability.

Senator MURRAY—You have noise as well.

CHAIR—Yes, noise. If it is a single person working through a computer to deliver services, where is regulation an issue? I am struggling with that.

Mrs Horgan—From a home office point of view, under state government legislation, this comes under the Town Planning and Development Act 1928—a relatively recent piece of

legislation! This was updated in 1999 to the Model Scheme Text provisions. So the laws regarding town planning and residential areas come under the Model Scheme Text. The laws about regulation are done by degree of intensity. The first degree of intensity for a business operating at home is what you have just described, a home office. This does not allow any extra people to come into the house—no employees—or signage. It is just an office set up within a home with people operating from there. That is as of right under Western Australian provisions. Across Australia, that provision does not exist. The next degree of intensity is a home occupation. The different degrees of home based business restrictions are dependent on the space that they have, the number of employees they have, excess parking that may be required, the number of vehicles coming to the site, provision for noise and emissions, as you were just saying, and also any extra load on the local infrastructure like electricity, power, broadband and things like that. With each grade of definition of home based business, the restrictions are a little tighter.

CHAIR—But, if no-one is employed other than the proprietor of the business, surely regulation should not be an issue.

Ms Oldfield-Hiosan—The concern in a lot of small town centres, meaning suburban town centres and not the CBD, is that home based business is clearly a competitor to those in the commercial strip. Whether they have leased a premises on the main street or they are in a shopping centre or even a business incubator, anyone operating from home is operating outside that defined area and therefore presents some competition. If they have lower overheads and can run their business perhaps more efficiently there is some concern in a lot of those network centres. Certainly what we have been coming across as we have been lifting this little rock up is that these businesses are not regulated. They are not this and they are not that, so we are competing with the unknown. The way we see it is that you should try and measure how much this business actually inputs into the community: whether it is spending its money within the community and whether it is residing in a neighbourhood and making the neighbourhood safer. For example, if there is someone there during the day so cars are coming and going, or if there is a person there and you are less likely to have neighbourhood and household crime, then that is the way it is put across. Clearly, though, one of the biggest problems with the push for regulation of home based business is the threat to commercial tenants who are running a business and have perhaps gone through a legislation or regulation process.

It is a matter of how you find out how many home businesses there actually are in your region. Usually you come across them. You cannot point your finger at a house and say: 'There is a business in that house,' but you can do that in a commercial street. You can say: 'There is a business there and a business there.' I guess when you look at rates and taxes in those areas there is an argument that these people are perhaps not paying their full way and are being subsidised by the commercial premises. It is not an argument that is very evenly balanced, and there are arguments both ways, but clearly that is an issue.

Senator BARNETT—The facts are on the table; I appreciate where you are coming from and I am certainly a big fan of small businesses—I think we all are—and particularly microbusiness; I am a former member of the federal government's Micro Business Consultative Group. I am trying to follow through by asking what, specifically, you are seeking in terms of recommendations. On page 1 of your submission—or 78 of ours—you have mentioned zoning, signage, limiting the number of employees, floor space limitations and parking restrictions. Are

those the elements on which you are seeking consistency throughout Australia or is that overly burdensome at the moment? I am trying to get a feel for exactly what you would want if, in an ideal world, you could say: 'This is what we have got to do'—then bang, bang, bang. Can you respond in that regard?

Mrs Horgan—The issue of consistency across Australia is way beyond what I can comment on. My knowledge would be restricted to Western Australian provisions and I am much more articulate with those. I prefer to stick to the Western Australian ones.

Senator BARNETT—That is fine.

Mrs Horgan—Consistency would be required across the 28 or 29 local or government authorities in the Perth metropolitan area. There are 28 or 29 different sets of regulations approaching home based business.

Senator BARNETT—That is the key point you are making.

Mrs Horgan—Yes, definitely. Even though the key umbrella is the Town Planning and Development Act and the Model Scheme Text, each local government authority can make regulations for its town planning scheme within certain variables within that town planning act so they can reflect the demographics of their area. So when you have a look at them across the whole metropolitan area there are differences. You could be on one side of the street operating a home based business and be subject to different restrictions to somebody who is on the other side of that road. Those restrictions could be on parking, vehicle movements or the number of employees.

CHAIR—It depends on the council boundaries.

Mrs Horgan—Yes, exactly.

Ms Oldfield-Hiosan—Or the zoning for that particular area. It comes down to zoning.

Mrs Horgan—Yes.

Senator BARNETT—I know you are an area consultative group. Do you have a national body that perhaps is an advocate for all of your groups around Australia?

Ms Oldfield-Hiosan—No, area consultative committees are largely driven by their region. Our interest in this is due to what we saw as the high number, particularly in the outer metropolitan area. We were primarily looking at it from the point of how we grow employment, which gets back to the very first question. We have now seen that there are some inconsistencies and also some policy implications at the Commonwealth level. The Small Business Assistance Officer program has been running for the last 18 months—or it will be 18 months by the time it winds up in December—and not a lot of information has come out of that as to whether home businesses have had significant contact with these SBAOs. We thought that that would be an interesting question that should be asked, because that has the opportunity to get right back down to the home based business level, particularly in regional and outer metropolitan areas. It is less of an impact on the metropolitan area where they have contact.

Senator BARNETT—Have you looked at any analysis of the full-time and part-time proportionality of your home based businesses?

Mrs Horgan—I am privy to some information, which is about to be published, that has come out of the City of Joondalup. That information shows that the majority of the home based businesses provide the sole income for those families and they are predominantly full-time people. The breakdown in employment reflects the employment of the spouse, a partner or some other relative to assist in the business. Generally, the stuff that is coming out of Wanneroo shows that they are valid businesses by themselves. It also shows that they have no intention of growing and moving to commercial premises and they are levelling off as a lifestyle choice rather than an expansion choice.

Senator BARNETT—So, in light of that—and as the chair mentioned earlier about the merits of these home based businesses being family friendly—is flexibility important, particularly where the other third are actually employing people? Is flexibility in terms of industrial relations and employment laws an issue that is relevant?

Mrs Horgan—I do not see them as being under any different industrial relations laws. You cannot start making exceptions for different things like that. I think the flexibility would apply where these people are operating and, if people complain and they are forced to close down, that is the choice between somebody losing their livelihood and becoming unemployed. In that respect, the social cost to that community may be huge. That is where most of the issues are coming up at local government level. They are saying, ‘These people are operating. They are employing two people. That is against our planning regulations and it is against state planning regulations; therefore, we must close them down.’ The social cost of that is quite high. Some ways of getting around that and being more amenable to these things would save a lot of heartache.

CHAIR—The degree of breach could be quite marginal.

Mrs Horgan—Yes, definitely. And the degree of disruption in a residential area is quite marginal in a lot of cases.

Ms Oldfield-Hiosan—One of the things you brought up was the superannuation guarantee. There is not a lot of evidence that people running home based businesses are providing adequately for retirement incomes. So superannuation is probably an issue that should be encouraged to have some research put into it.

CHAIR—Which probably means they are in breach.

Ms Oldfield-Hiosan—If they are employing themselves, is there a requirement for them to do that? In some cases there is and in some cases, if they are a business owner, there is not.

CHAIR—But certainly if they are employing others.

Ms Oldfield-Hiosan—If they are employing others, definitely. But if they are employing themselves alone it could be an impact waiting to happen in 20 years time.

Senator BARNETT—That is a good point, actually. Have you done any analysis on that?

Ms Oldfield-Hiosan—No, we have not. But I think it is something we need to raise.

CHAIR—Has the new tax legislation, which looks for a tighter definition of whether people are actually employees or businesses and particularly affects home based businesses, had much of an effect yet?

Ms Oldfield-Hiosan—From the work that Marilyn has been doing, because it has primarily been on policy and regulation, we have not noticed a lot of information coming forward on that through the work. However, there is some anecdotal evidence that it has had some impact on the number of businesses operating and those now choosing to be seen as a contractor to an employer. For example, they are now classed as an employee because, under that rule, more than 80 per cent of their work is for one company. So there has been an impact with some of those self-employed businesses, but to what extent I do not know.

Senator MURRAY—Would that affect regulation in any way? If someone is classified for tax purposes as an employee then, in terms of the scheme, they cannot be regarded as a business, can they?

Ms Oldfield-Hiosan—It then becomes an issue where people are telecommuting. If they are working from home for a company, a whole range of insurance issues emerge that may or may not be investigated, such as workers compensation, public liability and occupational health and safety. In some circumstances, they are probably not explored by that employer because the tax office is making the ruling. I believe that it is not adequately being looked at.

Senator MURRAY—In the context of what Mrs Horgan was saying earlier about the intensity of the work activity and the scales that apply there, I would assume that if the scheme considers you to have a certain level of intensity as a business and then tax reclassifies you as an employee, you would simply be able to argue that you are not subject to the business regulations.

Ms Oldfield-Hiosan—I think there are a few businesses that are unaware of that little trap that is waiting and that they continue to operate as a home based business without realising they have perhaps crossed the line. That is an area that perhaps needs some support and some advice and perhaps the SBDC is the place to go for that advice. At the moment, I think it is a grey area for some businesses, particularly those that have been operating as a consultant, whether they are working in administration, drafting or whatever it might be. There may be a fine line between whether they are employees or not.

CHAIR—Presumably they could be in the situation where they are moving out of one type of employment relationship into another over a period of 12 months, which then creates a lot of grey areas in terms of what liability they carry at any given point in time for workers compensation, public liability or for the raft of other issues.

Ms Oldfield-Hiosan—There is anecdotal evidence that when people start and they have taken a retrenchment package or whatever, a lot of their work could be with that initial employer but over a period of time they gradually build up other clients and a client list that is not

based on that trade practices provision that rules they cannot poach. So there could be a movement from being a recognised employee to a retrenched self-made business which is contracting to that employer to a truly home based business—my guess is that that is a fairly grey area as well.

Senator MURRAY—Then what you are saying is that there is a need for as flexible a system as possible. You do not want to load people up with different regulations when it is still just one person working from their home.

CHAIR—In many respects the shift could be quite marginal.

Ms Oldfield-Hiosan—If the shift is actually well managed there is a possibility that it could be a growing business as well. It may not have been explored that that business has an opportunity to grow and employ; therefore, as you said, flexibility could be a very good key to identify how we can get people employed in these businesses.

Senator MURRAY—The other point I want to pick up with you briefly is the question of councils. I think you said that there are 39 different sets of regulations, depending on the council. As you know, there have often been controversies and scandals with councils because of undue influence on councils. For example, developers have made sure that they can get on a council so that they can influence the way in which laws, regulations and decisions go. Is there any sign that the people from the more formal business sector, who might see this sector as enjoying good competitive advantages for the reasons you outlined, are using councils as an anticompetitive device? In other words, deliberately ratcheting up regulations to make it less easy for people to operate from their homes?

Ms Oldfield-Hiosan—I have not seen any evidence of that. I think there are small businesspeople in councils who have some unease about home based businesses based on the discussions we had earlier. I have not seen any evidence that they might manipulate any planning activity; partly because it is part of the Model Scheme Text so there is very little movement, and partly because there are some crosschecks and balances that might prevent that. I am certainly not aware of any evidence of that.

Senator MURRAY—So where regulation is poor, it is a result of incompetence not a conspiracy?

Ms Oldfield-Hiosan—One of the problems for home based businesses is in the business associations and chambers of commerce. They are at a distinct disadvantage in that lobbying area and therefore perhaps have their voice heard less than might be useful, but that is primarily because of the structure of those organisations.

Senator BARNETT—Do you have any suggestions on how those businesses can be represented and have an advocacy role? Do you think it is best done through the Small Business Development Corporation or by themselves through your group? Do you have any other suggestions?

Mrs Horgan—As legitimate businesses, there are existing networks and organisations available for them to be part of. The biggest issue seems to be within the businesses themselves.

They see themselves as separate and they do not enjoy a lot of the same networking opportunities. However, should they choose to, those organisations are available to them. As far as lobbying and things like that go, I guess a lot of them have chosen to be home based businesses to be away from that. They have made a deliberate choice not to be involved in anything other than their own business. They are a very obscure group to try and work with.

Senator BARNETT—Regarding the Business Licence Information Service and the Business Entry Point that we heard of earlier—I think you were in the room—do you and your members use it? Do you have a response as to how effective it is? Do you have any suggestions as to how it could be improved?

Mrs Horgan—A couple of years ago I was on the ground, working with home based business people, and yes, they did use the BLIS system as it was being developed. I have not used it in the last few months when it has become much more sophisticated but, nevertheless, it is a very valuable tool for businesses on the ground. Because my dealings with people have been less hands-on, I cannot answer the second part of your question.

Senator BARNETT—That is all right.

Ms Oldfield-Hiosan—It would probably be important that local government information was involved in that because clearly a lot of the regulations are in respect of local government. As long as the BLIS refers to local government, it would probably be very useful.

Senator BARNETT—My understanding from what I have heard today is that, certainly in this state, it is involved—

Ms Oldfield-Hiosan—I would imagine it would be.

Senator BARNETT—in that service and it is provided.

CHAIR—Thank you, Ms Oldfield-Hiosan and Ms Horgan.

Proceedings suspended from 3.12 p.m. to 3.31 p.m.

[3.31 p.m.]

McILHONE, Mr John, Director, South West Group of Councils

CHAIR—I now welcome our next witness who is from the South West Group of Councils. The committee has before it submission No. 70. Do any changes need to be made to the submission?

Mr McIlhone—There are no changes.

CHAIR—The committee prefers all evidence to be given in public although the committee will also consider any request for all or part of evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I invite you to make a brief opening statement.

Mr McIlhone—Thank you very much. The most noticeable issue, I would suggest, in relation to this inquiry is how pertinent and valuable the question is as far as the South West Group of Councils is concerned. In the submission itself, I have addressed only three of the criteria—the first being the effect of government regulation; the second being the special needs and circumstances of small business; and the third one, which is the fourth criteria, being the measures that would enhance the capacity of small business to employ more people. The emphasis of the submission that was forwarded by the South West Group focused on the last one, which is the solution to what is a very difficult question. As much as some of the issues that I have raised throughout the submission may be questioned, it is the view of the South West Group and my view professionally that they are in fact quite correct. Having briefly stated that, I invite you to ask questions about the submission.

CHAIR—The attachment to your submission, the Industry Direct paper—I have not had a chance to go through the one that you have circulated to us—seems to be very similar to other experiences I have had elsewhere, particularly with manufacturing companies. I wonder if this has specifically targeted manufacturing, which is the first part of your area. In places like Newcastle in particular, pretty substantial networking operations are being set up and they are doing the types of things that are set out in your paper, and I think they are realising a lot of benefits as a result of that. What intrigued me was that not only were they networking in terms of information but they were also networking their capital stock and employment in order to maximise the benefits to the groups. Is that a similar sort of basis to what is contained in your document?

Mr McIlhone—It certainly is. South West Metro is, by definition in terms of the local government perspective, the six local authorities that occupy the area between Fremantle to Rockingham, west of the freeway. That area is a statistical subdivision, as defined by the ABS, and it happens to be the geographical coverage of the councils that I work for. It contains a very large concentration of heavy manufacturing and primary production companies. The Kwinana heavy industry area is the highest concentration of manufacturing processes in Western Australia. As a result of that, a lot of small business feeds into the requirements of those big businesses concentrated in such a small area. The Industry Direct service was prompted by the

community's negative reaction to a specific development, called the Jervoise Bay Infrastructure Development, partly funded by Centenary of Federation funds from the federal government and the state government. The purpose of the Jervoise Bay precinct or the industrial estate was to create an onshore facility which will support the state's offshore oil and gas industries and resource sectors, given the predominance and, of course, the value of those industries to the Western Australian and Australian economies.

The Industry Direct response was a local government-cum-community reaction to what the community thought was another smokestack being built on the horizon by way of this infrastructure as opposed to a benefit which would create local employment opportunities for businesses in the area. So it was a case of looking to advocate on behalf of small business but also to package the capability of small business online in order to assist them to access opportunities associated with that facility once it became operational. It was really a need, if you like, to try and capture the benefits that were being forecast as a result of building this thing to overcome community opposition to what they saw as another encroachment on lifestyle as a result of further pollution and/or an effect on access to the coast and these sorts of things.

The other thing is that it was looking to use technology as a mechanism to try and create some sort of supply chain relations between big and small business so that big business at any given time at the push of a button could identify potential suppliers and those suppliers were coming from our region. Obviously there are benefits associated with being identified as potential suppliers and therefore the spin-off associated with the jobs that would be created and/or sustained or maintained.

CHAIR—Did that involve also looking at issues such as clustering and networks?

Mr McIlhone—It certainly took into account the government's perspective in packaging the Henderson area as what they have now called the Australian Marine Complex. They are very keen to market the entire area as a maritime and marine focused place. Apart from the lightweight shipbuilding industries, you have also got Tenex located there, obviously people who are supporting the steel hulled shipbuilding industry and also supporting the Fleet Base West at Garden Island with the Royal Australian Navy. The other thing that the state government is looking to do is to establish a technology precinct associated with the marine and maritime industries and the southern harbour or Jervoise Bay infrastructure project is about servicing the state's offshore oil and gas industry. Collectively they are looking to market that area as a cluster.

CHAIR—Presumably through that process a transfer of technology would occur at all levels. You refer to technology as being an issue. I presume that when you are talking here about embracing technology in business development you are talking about the use of computers and microprocessors.

Mr McIlhone—Yes, but also about having small business identify the potential technology has to transform their capability and/or to enlarge their capacity to access work. I do not think small business at this stage realises that the technology has the potential to allow them to close the deal when it comes to doing business.

CHAIR—I do not know whether you were here when I raised earlier the question of managerial skills and managerial training in the broad sense, not in the narrow sense, but the issue of business development and how to manage the business, marketing and all those sorts of skills. How important a factor is that in ensuring that small business survives?

Mr McIlhone—I think it is essential, to be honest, simply because I do not believe that small businesspeople are as skilled up as people would suggest they are. As a practical example of that, we hosted three workshops over the previous four to five months in association and partnership with the Small Business Development Corporation in the Rockingham and Fremantle business enterprise centres. The purpose of these workshops was to introduce a number of key challenges that small business faces in relation to conducting business with larger business and/or to take advantage of the opportunities that would be available to them as a result of having this Jervoise Bay infrastructure precinct up and running. The first workshop was on pricing for profit, the second one was on competitive tendering and the third one was to do with marketing. First of all we posed to small business the question: ‘What assistance do you need in terms of realising some of the benefits we think are associated with the Jervoise Bay development?’ They came back with a list of things. We staged these workshops. We had speakers come in. In fact, on the front page of the *South West Group Newsletter* we actually had a report that the Fremantle Dockers head coach stood up and gave the professional motivational type speech, which was incredibly good. He was very good on his feet. Obviously getting the best out of his players is part and parcel of his role as head coach at Fremantle.

The impression we got was that the people who attended these workshops found it very valuable, but the attendance was poor. Without looking to suggest the reasons for that, as a symptom of small business time is obviously a big factor—being able to get out outside business hours, whenever they cease in terms of being small business. But given the number of people registered on the database, the number of fliers that went out and the methods that we used—sending out mail shots and electronically advising people—I think about 175 to 180 people actually attended the three workshops. This was not too bad, but it would have been nice if we had had 100 people at every single one.

CHAIR—Would it be fair to say that amongst the small businesspeople in your region generally, the level of training that business owners have undertaken would be relatively low in terms of these specific skills?

Mr McIlhone—Yes, that would be my view. It is purely on a voluntary basis. It is being able to squeeze it in, in terms of their time and their commitments. The feedback I had from people who actually attended the evenings was very much a case of, ‘We heard this from someone else.’ It seems to be hit and miss identifying and reaching these people with a certain message, which is about business assistance. That is what the whole process was about. It was looking to deliver them some kind of assistance which would enhance their prospects in accessing these opportunities and, in effect, make their business more competitive. But I think they find it difficult to actually realise that. They say, ‘What’s in it for me? I am just a small business, I can’t compete.’ Or ‘Gee, what’s a computer?’

Senator MURRAY—I have some experience of your group and I must say, in the interaction I have with local government in Western Australia, it is one of the most professionally organised groups of councils, which is impressive. What characterises a lot of your activities is

that you are a promotional outfit. As a group of councils you do not just concentrate on the basic services which councils traditionally provide and must continue to provide. You have quite aggressively tried to coordinate development for your area. However, to do that effectively you have got to have partners at various levels. I think what you have just said about small business illustrates a real weakness. I bought my first small business when I was 21 years of age, so I have been involved in small, medium and large business for nearly 30 years. Two things always struck me about small business: a low level of business skills as opposed to the particular skills that they had in that business—good tradespeople but lousy on financial planning; and an unwillingness to participate in numbers in organisations to promote their own interests. What you have just outlined was typical; you promote something which is in their interest and statistically a very small number turn up.

It may have changed, but I remember West Germany had a requirement that you could not be licensed to run a small business unless you had gone through a business training program in the essentials of business planning, cash flow management, financial systems, technological systems and so on. As a result of that, nearly 80 per cent of small businesspeople there survived whereas in other parts of the world two out of three fail. That is one measure: forcing people into a level of competency. Other countries have, through a levy system, forced small business to be members of trade organisations. As part of the state taxation system, they levy everyone, and you are a member of whatever it is; it is almost like a guild system. Have you any ideas as to how Australia could generate more involvement and more activism from small business when they do not seem to want to do it themselves?

Mr McIlhone—That is a big question. Firstly, thank you very much for the acknowledgment of the South West Group. It is my business to try to add value to local government on a regional basis, so I try to step above their core business when it comes to delivering a number of solutions to regional problems. You used a very good example with Germany. I was in the Netherlands in 1991 during the weekend that the European ministers met to sign off on the Maastricht Treaty in a region called Limburg. The Chamber of Commerce, along with the local authority, in effect, and the federal government from The Hague, organised the staging of the European Council summit. The Chamber of Commerce is very structured and very powerful, and I think it is a compulsory entity to belong to if you are a certain business or a small business. So I take your point when it comes to trade organisations.

I am not sure of the amount of compulsion you can insist upon when it comes to small business here, given the underlying reaction that the average person has to authority—and not looking to undermine authority by any means. I think there needs to be a self-initiated solution from business if they are serious about gearing themselves up as a structured force when it comes to advocating what they identify as their needs. A good example of that is the Industry Direct service. A number of people who are using this service have identified it as a means of identifying potential partners out of companies that they once viewed as competitors. I think the other difficulty you would have when it comes to compelling businesses to join or to be more cohesive or coordinated in terms of reaching a solution would be overcoming the mentality that they may have that the guy down the road is to be fought off at all costs and that there is no scope for interaction or for coordination or cooperation.

That does not provide you with a distinct answer, but I think it needs to start with identifying some of the barriers that small business identify when it comes to forming themselves into more

sophisticated advocacy groups and/or advocating on behalf of their industries. The other thing is that, depending on which sector they work in, they probably do not identify themselves as part of a small business; they probably identify themselves as being either mobile mechanics, painters, welders or as whatever other type of small business they are involved in. That is just my comment in terms of my observation, my understanding and my experience in dealing with a number of small businesses.

Senator MURRAY—The reason I put that question is that, for politicians to respond to community needs, you have to find a means of expressing those needs. It is obviously impossible to reach out and talk to every voter, and therefore associations or organisations are very important. Certain small business sectors, such as motor traders or pharmacies, are very powerfully organised and highly articulate groups, but with other sectors it is very difficult to get a representative view out of them. I think one of the difficulties that this committee will pick up on is the lack of a coherent voice for the multiple sectors within small business. It seems to me that, in your region, your ABS—

Mr McIlhone—Statistical subdivision.

Senator MURRAY—Statistical subdivision—yes, I thought that was rather sweet. You have, in your own way, tried to tap into and extract from small business an integrated approach to regional issues—development opportunities, growth, employment and assistance.

Mr McIlhone—Yes. Jervoise Bay was really the entity that we have targeted as the means of demonstrating the value that this service can have when it comes to, first of all, identifying businesses involved in activities which will have a need when it comes to the operations of Jervoise Bay. So it involves pretty much the engineering, fabrication and manufacturing type sectors and the construction areas, but also the smaller businesses which may be involved in providing safety equipment or protective clothing, or even servicing the site in terms of food and toilet paper—the things that you probably would not think much about. It is about looking at packaging their capability online so that big business, which will actually be signing the cheques when it comes to the supply requirements of that facility, are aware of the existence of these businesses and what they can provide for them. It is a demonstration project, to an extent.

The other thing that I have to battle is that local government as an entity is not expected to be involved in these sorts of activities. So, to a large degree, when it comes to sitting down with some organisations—for example, the Industrial Supplies Office and/or the Australian Manufacturing Workers Union—that have specific views and are involved in some capacity regarding local content and local industry participation, they have overcome their surprise about the involvement of local government because they see the value in a service like Industry Direct. It has been of benefit in terms of elevating the capacity of local government as a grouping of councils to deliver a low-level initiative but one that is very community oriented.

Senator MURRAY—What I am struggling towards is what kind of mechanism there should be which best results in consultation and interaction. Should it be through a federal government bureaucracy and should we say, ‘Here’s the tax office and we’ll shove stuff out to everybody through that,’ or should it be through the state government—for instance, in this state, through their eight development regions? Should it be through somebody like the SBDC or should it be through local government? I have not often seen—I am by no means an expert in this area but I

try to keep my eyes open—local government actually trying to interact with small business in the way we are describing now. I wonder whether the model that you provide is a good one in adding to the capabilities and whether it should be developed more.

Mr McIlhone—I do not think another entity is needed in terms of having overarching responsibility or a role when it comes to achieving the objective. A number of organisations are involved in a number of things which are designed to try to facilitate more opportunity for local business; hence the associated benefits when it comes to employment. An example of that is the State Supply Commission, which has a ‘buy local’ policy, which is state government policy. There is a dollar threshold when it comes to the government spending X amount on certain activities whereby the local preference policy cuts in. So if a government department is looking to buy something and it is over a certain amount of money, they must adhere to this policy. It compels them to seek local suppliers.

That is one mechanism that would be of assistance. It is a really hard one, because I think the entities you are dealing with are not generic as such. There are so many different views in different organisations with different sizes, structures, issues and sectors. You have to come up with a solution that they are going to embrace and which is going to be good for them. I probably should have spent more time thinking about that.

Senator MURRAY—It is very difficult. If you want to generalise about small business, it is my perception that large numbers, perhaps the majority, are isolated in themselves and are expected to take the initiative. I think that is often unrealistic, given the time and job constraints they have; therefore, you need people almost automatically interacting with them in the interests of the community at large. I have never found anything anywhere that works effectively to overcome that isolation element and I wondered whether your experience had shown you otherwise.

Senator BARNETT—Senator Murray has covered a lot of the ground, but I am interested in fleshing out things a little more. The voice of small business is vital, certainly for all three levels of government, and they should be able to express their views and concerns adequately. You talked about the lack of participation in your forum and the disappointment you felt, and I can relate to that. How can that be best represented? Just reflecting on the roles of the business enterprise centres and the Small Business Development Corporation, and taking them one at a time, do you think they fulfil that role to some degree? If so, to what degree and how effectively?

Mr McIlhone—They certainly do, and their names suggest that they must. They have a presence in the marketplace in terms of their tasks, which are about supporting development and the nurturing of small business. I am on the board of the Coastal Business Enterprise Centre, otherwise known as the Fremantle Business Enterprise Centre.

Senator BARNETT—That is within your area.

Mr McIlhone—Yes. The BECs tend to view themselves as quasi-independent of the SBDC. If you could imagine a holding company in the private sector, I would suggest that the SBDC may well see itself as the head office, with its branch offices being the business enterprise centres that extend throughout the state. The BECs are probably more at the coalface when it

comes to day-to-day assistance, but at the policy level; at the macro level you have the SBDC, which has its presence in the heart of the City of Perth. It is well resourced and has its own board. As to the second part of your question in relation to the service value they deliver and/or what they provide, I read their annual reports and I visit their web site. Without looking to cast any aspersions upon how effective they are, I would do things slightly differently if I were the SBDC.

Senator BARNETT—In some respects, your role is to represent the small business interests in your location, isn't it? I guess you might see that as being partly your role.

Mr McIlhone—Certainly, the strategic plan of the South West Group of Councils identifies economic development generally. Small business, being such a prominent and important factor, has been identified on an issues basis, which was really the Jervoise Bay development, and the need to assist small business as a fairly important grouping in terms of employment.

Senator BARNETT—Going back one step, the analysis says that it is easy for big government, big business and, say, big unions to relate, to liaise and work together; it is much harder for all three levels of government, particularly federal and state, to get down and know and to understand and hear the voice of small business, in particular the very small businesses. Would you agree with that?

Mr McIlhone—Yes, I probably would. In my experience, the people I know who work in small business often feel as if they are constantly battling government. I mentioned before about local government and its involvement in initiatives like this and in employment and small business. A lot of people do not see the relevance of their involvement, and local government is often viewed as the last obstacle when it comes to doing business, because it is just another layer of government. So we only get involved if we feel we can add value to specific issues or challenges that local small businesses may face.

Senator BARNETT—We have heard representations this afternoon regarding home based businesses and their problems with local government planning laws. You may have heard some of their views and concerns about the lack of consistency with respect to local government planning laws. You represent the South West Group of Councils. Do you have a view on whether you would agree or disagree and to what extent you might agree?

Mr McIlhone—Yes. About four or five years ago I conducted a joint research assignment with the department of training in Western Australia to identify the extent of home based business and its importance in terms of employment. As you have said, local government is involved in the licensing process. The Model Scheme Text has taken away some of their free rein when it comes to the rules and regulations that govern business as of right, but the home based business licensing process does differ from local authority to local authority. Some make it easier than others to conduct business.

In my experience, a lot of home based businesses are working underground, simply because local authorities are viewed as another obstacle. It is like the classic example of the iceberg: the bit you can see at the top is the registered home based businesses and the bit underneath the waterline is those business operating without a licence. There is obviously a financial cost to small business in the registration process. Some local authorities require them to re-register

every 12 months, so once they have actually been approved they have to go back and maintain that approval. Some local authorities charge no fee at all. The City of Subiaco, for example, does not charge applicants for a home based business licence. If it is approved, it is approved and they can conduct their business from home.

Senator MURRAY—What is the typical fee of someone who does charge?

Mr McIlhone—The six local authorities that I work for—actually five, with one very closely aligned—do not have a definitive policy on what fees they charge and why. You mentioned previously the extent to which hidden agendas and/or some other mechanism may prevent people from acquiring a licence to operate. The one thing local governments—some more than others—can become a bit paranoid about is amenity. The town planning schemes that they subject their towns to are the issue. It is about maintaining amenity. If there is a potential conflict with the operations of a home based business when it comes to amenity—whether it be signage, increase in traffic or more people in the area at a certain time—they use this issue of residential amenity, and now a statutory requirement to maintain that amenity, as a potential reason for knocking back applicants when it comes to home based businesses.

Local authorities tend to be reactive rather than proactive when it comes to their home based business policy. I did attempt to create a coordinated proactive approach—more a policy than rules and regulations governing what you cannot do—simply because it has been recognised that there is a lot of potential for home based business to employ a lot of people. It is very difficult at times to get local authorities to think over and above their core business, so when they see a particular threat they tend to become a single local authority rather than a grouping of councils.

Senator BARNETT—So have you tried in your area, without a lot of success, to be proactive and grow consistency within the area in terms of planning and licensing laws for home based businesses?

Mr McIlhone—The real challenge would have been trying to push it past councillors. Getting councillors to agree to one policy governing a particular function that they have a role or responsibility in is very difficult. It tends to differ, too, within local authorities in terms of the make-up of the council. Some councils have businesspeople who probably view it as a threat, and of course other councils view any mechanism which would enhance employment prospects as very positive and will not stand in its way. Getting them all to agree on a specific policy is very difficult. I probably did not try as hard as I should have but I did make an attempt.

Senator BARNETT—Well done for trying.

Senator MURRAY—There is a ministry here: do they take no interest in this area, do they make no efforts in this area?

Mr McIlhone—The Ministry for Planning? You are probably aware that the whole of government task force was a review that the state government implemented to restructure the state government. The Ministry for Planning is now in fact the Department for Planning and Infrastructure. While, obviously, their policies would have been ongoing throughout this review, personally I think that the whole of government task force was a major interruption in their day-

to-day business, and for the last 13 to 14 months I would suggest there have been quite a few empty shirts in each and every government department. I think they have found it very difficult to conduct business as usual with the extent of the reorganisation and change that they have been subjected to. That is not to say that what they do is not of value and what they did previously is not relevant. Local governments are statutory authorities. They have written regulations, rules and obligations, so when it comes to home based business I think state government is quite happy for the bulk of the activity associated with it—whether it be licensing or otherwise—to be the domain of local authorities.

Senator MURRAY—Without trying to coordinate, using Senator Barnett's word, a consistency of approach? It would seem to me that the basic role of government is to get consistency across whatever area it is, from signage through to fees and charges.

Mr McIlhone—Certainly the Model Scheme Text was an attempt to do that—but only to a certain level. Home based business has a right, in effect, which removed local government involvement in giving the approval for a home based business to function.

Senator MURRAY—Let me be big stickish. If either the state or the federal government said to the 80 local councils, 'Okay, on the home based business, you will have agreed to the policy that'll be adopted and there will be these principles: consistency and so on'—they could lay it all out—'otherwise, we won't give each of you \$10 million,' I would bet you that within six months it would be sorted out; wouldn't it?

Mr McIlhone—I am sure you are right.

Senator MURRAY—It is political will, isn't it?

Mr McIlhone—That is it at the end of the day, as well as—and without looking to emphasise it too much—local government's obligation, if you like, to provide amenity when it comes to residential areas. They see that as potentially being a conflict with the activities of home based business, so that is paramount within the town planning schemes. So they do have a bit of a policeman type attitude when it comes to enforcing it.

Senator MURRAY—They certainly do.

CHAIR—I was a bit disappointed in your submission, and do not take that as a criticism. Under point 2 of the terms of reference you list a whole number of dot points which are seen, I suppose, as negatives or deficiencies in small business—all of which we could agree with—but I was a bit disappointed that I did not see any proposals or recommendations on how to address some of these deficiencies or what you felt government could do, should do or needed to do to really assist small business and to facilitate this capacity to grow.

Mr McIlhone—The attachment that provided an overview of the service that we were involved in was one solution, I guess. This goes back to a presentation I gave in the Menzies room at the state parliament a number of years ago, when Hendy Cowan was the Deputy Premier, when the Jervoise Bay facility was first being mooted. The funds had been secured and I suggested that we have some kind of local employment preference which would locally secure the benefits associated with that facility. The meeting was also attended by a number of other

members of parliament—the minister for transport and minister for planning was there and the minister for the environment was also in attendance—as well as their advisers and state government department heads. Following my suggestion that the state government consider some kind of legislated local employment preference, I was accused of being a wet economist. While I can sit here and quite happily be called a wet economist, my response to that was, ‘I’ll become a dry economist when the state government decides to stop regulating taxi plates or the number of taxis on the road and whether I can step off a kerb and hail one.’

That was an example of what I thought was one possible solution not only to overcome community opposition but to fulfil, if you like, an adjustment that the government might decide the market would not do on its behalf. Obviously, because you have state and federal funds being expended, you would like to think that the government would be emphasising the capacity of local business to provide the big boys with the materials and the supplies they need not only to build the facility but to actually operate it.

The reason I did not get involved in some of the solutions is that I am probably not terribly qualified to come up with the answers. Certainly I was self-employed for a three-year period. It was not in this country. My obligations in filling out VAT returns as a sole proprietor where I lived were similar to what people have here when it comes to filling out their GST returns.

The message I have received from business that I have engaged or am aware of is that their level of sophistication has been overestimated, certainly in terms of financial controls. Certainly there was an adjustment period when it came to the GST and coming to terms with a totally new tax regime. Two years down the track, I think a lot of businesses are probably taking it in their stride and they are getting on with it, but the adjustment process and the cost of that adjustment were borne by small business. As to the solutions, if I really had the answers I would have thrown them in. It was not my intention to throw sticks and stones, just to convey messages, themes and issues.

CHAIR—It is useful to have it identified in that form. You have obviously had a fair bit of experience in this area through your current appointment. If there were one single issue that you had control over delivering, what would it be? What is the single issue that would have the greatest impact on small business?

Mr McIlhone—I think it would be access to professional assistance and guidance beyond an accountant. As much as balance sheets can represent a business’s health, I think small business need to be able to understand what they need in terms of survival and growth. They rely very heavily upon the advice of an accountant. The scope and scale of the advice they can receive from such a person is significant, but they need to be aware that they probably need broader advice when it comes to being successful in their business. That is probably a major message. The other thing is that the layers of government can often be quite imposing on small business. If it is not one, it is the other. I think they feel as if they are identified as targets.

CHAIR—Is that a perception or a reality?

Mr McIlhone—It is certainly a perception amongst businesses that I have spoken with. As an example, I know of one particular person—and this is not federal; this is state legislation and requirements; this is WorkSafe—who had a WorkSafe officer come along and inspect his

premises and give him a bill for \$20,000. As much as he would say, ‘Okay, I didn’t do this, I didn’t do that,’ he needs to take a serious look at the implications of that bill in terms of his business. He employs five or six people—he is involved in the engineering game—and the components, or the cost of buying and fitting and making adjustments to his premises, were going to set him back the cost of an apprentice.

Senator MURRAY—Your point has been made within the community before: where there are major transgressions of regulatory law the enforcers, if you like, extend leniency or allow a transition time and take a warning, cautioning kind of approach to very large businesses such as those very large, environmentally damaging businesses down south—you know which ones I mean.

Mr McIlhone—Without mentioning any names, Senator.

Senator MURRAY—That is right. But they will automatically fine a small businessperson without going through a cautioning process and saying, ‘Get it up to speed. If you don’t by such and such a time this is the consequence.’ It seemed to me that 20,000 hits on a business of the size you outline would be equivalent to perhaps a million or more on a very large business. Anecdotally I have picked up quite a lot that it is automatic for a small business but, because of its size, a large business can argue, ‘We want it delayed.’ Do you find that?

Mr McIlhone—That is just through talking with friends outside my job, if you like. The small businesspeople I deal with tend to be involved in the specific initiative. These are people who know what I do. They often give me anecdotal evidence or examples of what they have been hammered with—simply because they are reachable; you can get to them. They do not have a department full of counsel, legal advisers or accountants. They might have their wife at their back saying, ‘Can you give what’s-his-name a buzz; maybe we need to talk to a lawyer about this.’ Then they say, ‘I have just had a phone call from WorkSafe; he is going to close me down unless I spend 20 grand.’ That is a very relevant example.

CHAIR—As well as the point you made about the capacity or incapacity of small businesses to hire professional advice, it comes back to the capacity of large businesses to hire professional advice to steer them out of the murky waters. I was reading about a case which is going on in Sydney at the moment and which demonstrates the points being made: Frank Lowy, the owner of Westfield, is in dispute with his next-door neighbour over an extension of one metre onto a balcony.

Mr McIlhone—That is still going on, is it?

CHAIR—Yes. Apparently Lowy turned up with four senior counsel and three junior barristers against the other guy’s solicitors. Again, it goes to the capacity to buy that expertise.

Mr McIlhone—The other thing in terms of a solution—and this is something that I recognised a number of years ago while working for a telecommunications company—is the incredible impact that technology has had on the business environment. I do not think small business at this stage has quite absorbed the extent to which technology is transforming their business environment and the way they will do business in future. As an example, there is the Kellogg joint venture, which is currently part of Woodside’s expansion of the LNG train at Karratha. You are

talking about a multibillion dollar project. I attended the industry briefing that was hosted to sit companies down and advise them of the opportunities associated with this major development. Apart from being identified as preferred tenderers or companies that had already done work for Woodside, the only way a business could obtain information on any of the contracts that would be let throughout the entire life of that project was to be online. Every single contract was to be let online and the outcome of the tender process was to be online, so if you did not have access to technology you would not be doing business in a multibillion dollar project.

Senator MURRAY—And, as you know, there are many people with access to technology who cannot use it properly.

CHAIR—Thank you for your attendance, Mr McIlhone.

[4.19 p.m.]

HOLGUIN, Mr Frank, Member Portfolio, Master Cleaners Guild of Western Australia (Inc.)

WESTOBY, Mr Ian, Executive Director, Master Cleaners Guild of Western Australia (Inc.)

CHAIR—Welcome. The committee has before it submission No. 55. Are there any changes you wish to make to the submission?

Mr Holguin—No.

CHAIR—The committee prefers that all evidence be given in public, although the committee will also consider any requests for all or part of your evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I invite you to make an opening statement.

Mr Westoby—The Master Cleaners Guild is the peak industry body for the contract cleaning industry in Western Australia. It has about 150 members, who employ about 12,000 people. The cleaning industry in Western Australia employs about 24,000 people, so it is one of the major employers in the state—in fact, in Australia. We have members that range from large multinationals down to very small companies—the one-man bands. In fact, the majority are very small companies.

Based on the criteria for small to medium sized businesses, they would all be small businesses, including the multinationals, in this state. At the state level, they use a different criteria—that is, 20- to 100-person full-time equivalents. The guild represents a very broad range of small businesses providing a very basic service at a very minimal cost. Any impediments put in their way immediately affect their bottom line. They operate on a three per cent to four per cent profit margin, which leaves no room for mistakes. Our experience in dealing with the federal government is woeful as far as small business is concerned. It is totally disgusting. The government has no interest at all in small business, and it has no understanding of small business. We have had very good working relationships with the state governments—both the previous Liberal one and the current Labor one—and they probably lead Australia in supporting small business in an open way. Conversely, Queensland does not let anybody other than Queensland people win Queensland contracts. Neither of the governments in this state of either ilk has ever done that, although we would like them to. When you get down to local government, you have only to read the number of inquiries in Western Australia at the moment to find out what they are doing. Some of them are very good.

We are entering a new arena in industrial relations with the new Labor government. We accepted a year ago that the new government were in and were going to change the rules, so we stopped fighting with them and tried to work with them. Although we have some big problems with what they are doing, they are the government.

Frank runs his own business. I do not; I run the guild. As far as the GST is concerned, I think most people with half a brain rolled through the GST without any problems. The accounting industry made a fortune out of it by making it very complicated. I went through VAT in England when it was introduced. Apart from adding 10 per cent to your bills and paying it to the government, it is not that complicated—unless you want it to be, and obviously the accounting profession did.

Insurance is the biggest issue. Workers compensation is a state issue. We are still trying to find out how the insurance companies arrive at the gazetted rate they charge us—they cannot tell us, and we cannot work it out either. We have done the figures with the insurance companies in this state and our gazetted rate should be half of what they are currently charging. WorkCover is currently trying to work out why it is double.

Public liability has a huge impact on all the contractors in the cleaning industry. Frank is going to correct me on that, because he has just got his bill. In fact, it has an impact on all sorts of people. The only stories you read in the papers are about horse-riding and all those sorts of lovely warm and fuzzy things. We have a member who cleans shopping centres. His premium went up by 5,000 per cent. His excess went from \$5,000 to \$50,000, take it or leave it. You could not buy public liability insurance in this country, but you can now. It is not a local government or a state government issue; it is a federal government issue. The state government is playing with it but, federally, something has to be done. The big boys cope with it because they spread their public liability over a very large turnover. Most small businesses do not have that option. It is not based on turnover; it is based on risk. Frank, as a small cleaning contractor, could carry the same premium as Tempo, which is the biggest cleaning company in this country and probably does nearly \$1 billion worth of business. Frank would love to do \$1 billion worth—I doubt that he is—but his premium could be the same, because it is based on risk. If you have a shopping centre with a public thoroughfare, there is a risk.

Training is another issue. Bearing in mind that Larry Davies from the WA Department of Training is sitting behind me, I will not be careful of what I say because I know Larry and Larry knows me. This state government's Department of Training is probably run with money they get from the federal department and probably better than any other state government department of training—Queensland's went bankrupt, as you probably know. But of course government departments do not actually go bankrupt; they just get bailed out. We have big problems with this training department. We have fought with them long and hard because we are in the cleaning industry, and who trains cleaners? The bottom line is that in two or three years time if the cleaner does not have a certificate of nationally accredited training they will not get a job. Why won't they get a job? Because no reputable employer would employ them, because they cannot get insurance in the marketplace. One of the worst offenders in this area is probably the federal government because they have third-party providers—or facility managers or whatever you want to call them—over in the east, and some of the things they get up to would curl your hair. But you, as the principal of the contract, ultimately are responsible. I do not know if you are aware of that. In fact, I think you are responsible personally as well when it actually goes the whole way.

One of the big areas of training that we have a problem with is traineeships. There are many people who have exploited the system. Our industry has had one or two bad eggs; we have exposed them and helped the department bring them to task. We have always supported the

department. But the big issue for us in the area of traineeships is that we reckon about 90 per cent of our people work less than 20 hours, which means in this state they cannot get a traineeship. In every other state they can, and they get the same benefits and incentives and all the rest of it. We actually do not agree with that, but it is the federal decision that if you do a 15-hour traineeship you can still get 4½ grand in incentives, and if you do a 40-hour traineeship you can still get 4½ grand—I do not quite see why you do that, but that is a big issue for us. Is that all right for an opening address? Frank can say a few words as an employer.

Mr Holguin—I was going to say ‘ditto’ but I thought that probably would not do. I started my company back in 1987. There were two of us then; there are approximately 100 of us now with most of those people being part time. I think, like a lot of people in small business, it ends up with the tail wagging the dog. Certainly, if I knew when I started out what I was getting into I probably would have got myself a nice cushy job in government, but instead I went down this road. I am not an academic; I am just a guy who is half decent at cleaning, and then I managed to put a few things together: I won a few government tenders and now we do some quite large tenders for people. Now I have to employ bookkeepers; I have to have an accountant, who charges me \$120 an hour—I do not know how they make up all these rates, by the way; nobody will ever answer the questions. One of the things that I really hate, as most people do, is payroll tax. For the life of me I cannot understand the rationale behind that. I know governments have to get their taxes from somewhere but it confounds me where payroll tax could possibly come from.

My experience of dealing with government departments—although most people like you want to cooperate with and be in partnership with people—has left me feeling at the end of the day that everything carries this big threat. If I get a letter from Centrelink it says: ‘We require the following information from you, and if you do not comply with this we have something that is going to be nasty.’ Everything that the government interacts with, from my point of view as a small business owner, seems to carry a big stick—there is always something. To a certain degree, with things like superannuation, there is this feeling of a welfare state mentality. I am just a bloke that is very motivated and who wants to make life better for me and my family. I have ended up involved in this system where there is a bit of a welfare mentality in the way we treat people in the workplace: we tend to baby them a lot. We have a huge amount of law—about unfair dismissal, for example—that lawyers are paid huge amounts of money to translate for ordinary people. Industrial relations is a minefield: it has almost bankrupted the guild.

The guild has 150 members and they raise a certain amount of money, but if you go to the industrial relations tribunal and confront a union, because most unions are very confrontationist, they do not sit down and negotiate with people. In my dealings with unions, despite the fact that I am very much a working-class person, there has been this constant threat. It may be philosophical—that they are just opposed to capitalism and they do not really want to negotiate. But there is a real fear, despite the fact that my company has always paid the award. Even when the Court government were here with their workplace agreements, we stuck to the award because we were uncertain about the consequences of workplace agreements. Workplace agreements were to do with the minimum wage and not the award, and some people unfortunately went down the track of using workplace agreements to reduce their costs. We stuck with the award. Now there has been a change and there is a Labor government and they are doing all sorts of things. It is very hard for a company the size of mine—and there are a fair

number of us out there—to take on governments and unions to try to find some sort of middle ground. It is really daunting.

They are just some of the problems we deal with. As I say, there is taxation, industrial relations and training—which is something I am into in a big way in my company. I am actually a registered training organisation as well as a contract cleaner. We do not seem to get any recognition of that fact. We do quality assurance, training and all these things and yet those things never seem to translate into any additional money being paid to us and we never seem to get any recognition from government or anybody about the huge number of people who are being trained in the cleaning industry at the moment. It really is a very contentious area and may be one that the government should look at redressing.

CHAIR—What type of recognition are you talking about?

Mr Holguin—Ian was talking about the reason that people were going towards training. We had a lot of discussions about workers compensation and public liability and how we were going to be proactive about dealing with the blow-out in workers compensation and public liability. One of the paths we went down was to look at training people better. A lot of the training in the cleaning industry, because it is a very basic service we supply, is about occupational health and safety. The training we give a lot of the people through national accredited training has a lot to do with how to do things safely—with the thought in mind that maybe the insurance companies or the governments would recognise that we were trying to do the right thing, that we were training people so they were not injured in the workplace. But we do not seem to get any recognition from insurance companies or—

CHAIR—So you are talking about monetary recognition? Are you suggesting that you should get a discount, like you get a discount for having security if you put safety bars on your house?

Mr Holguin—Ian was talking about public liability. I said to him that I have just had an increase of 20 per cent in my public liability, and he said, ‘That’s cheap.’ And I thought, what are we doing when we think a 20 per cent increase is cheap, because somebody else is getting thousands and thousands per cent? I have not had a claim on my public liability, but this week I was given an increase of 20 per cent, with no justification apart from the fact that it is all over the newspapers and it is hyped up—

Senator BARNETT—No reason.

CHAIR—Spreading the risk.

Mr Holguin—Sometimes it would be nice if people actually explained rather than just lumping it in your lap. The attitude of insurance companies is very much, ‘If you don’t like this, go somewhere else.’ There is nowhere else to go; Perth is a small place and there are not a lot of insurance companies you can go to.

CHAIR—I would like to come back to your submission. Under ‘other issues’ you say:

Ensure training ‘agendas’ are industry driven ... and not in isolation by state training departments and big business.

What do you mean by that? Are you saying that you do not have the capacity to influence the training agenda or the training framework in your industry?

Mr Westoby—We as an industry—and Larry will probably tell you this—are probably more successful than most industries in getting the ear of the department and the government in the area of training. It should be borne in mind that we were coming from a base of nothing—we got nothing. There are 24,000 cleaners out there and, until about four years ago, we did not get one cent of government money. If you trained anyone you paid it out of your own pocket. Since then we have moved to a position where we do get some funding.

The traineeship area is very good for our business. Statistically, a lot of the people who come into our industry are middle-aged and female. The male-female ratio is about fifty-fifty. We do not take kids from school, because you would not have a person who is 16 years old running around here at midnight. Frank could not afford the public liability and workers compensation insurance for it either. They are not kids from school and we have never tried to get into that market, because people do not leave school to become a cleaner. People do not enrol in cleaning courses. We ran adverts for some time trying to get people to enrol in training courses prior to the Asset Maintenance Training Package—the ANTA approved package—coming in, and we were lucky to get one person front up that actually paid for the ad. The TAFE colleges spend a fortune on advertising. If you are lucky, you will see a cleaning course there. People do not walk up to a TAFE college to enrol in a cleaning course. It is probably the exception. You could probably think of some other courses, but people do not just rock up and say, ‘I want to be a cleaner,’ or ‘I want to do some training in this.’ It is employer driven, which makes it very different. We make no secret of the fact that most employers who put people through training in this state pay the person something at the end. That can be \$100, \$500 or \$1,000. That comes out of the \$4,500 incentive. Quite a large number of them use the \$4,500 incentive to train other employees—that is, existing employees. Bear in mind, if you are working on a two, three or four per cent profit margin, there is not a lot there to pay for training.

The federal government calls a lot of tenders and does not pay one cent towards training. The federal government goes for cheapest price. It calls national contracts, which wipes small business out completely. It makes no recognition of training. The only department in this state currently that has any reference to a national qualification for training is the Department of Education, and we negotiated that with them. The new one that is going to do it, the Department of Housing and Works, will be releasing—if and when it gets off the minister’s desk—a policy with the criterion that you will use trained people.

We drive it very hard, but we have received stopgap stop-go funding from the Department of Training. It causes us pain to explain. We ran a contract. We are not an RTO. Everyone says we should be, but we are not. We are a facilitator. Other organisations have become everything and eventually have run into all sorts of strife. We are not everything; we are one thing: we are a facilitator—if you want something, I will tell you where to find it. We might take a commission on the way through—not me personally, but the industry. We make no secret of that. We do that with training. We make no secret of that. If we introduce a TAFE, we want some money. If we introduce and act, we want some money. There is nothing secret about it. It is all out there in the open. People have problems with that; the department has problems with that.

We won a contract to run training for existing employees. We were given the money. With the exception of about six places, all that money went to TAFEs—public institutions. The rest went to Frank, as an RTO. We trained 300-plus cleaners. We were funded to train, I think, 250. We did it at a third of the cost and we got a 99.5 per cent pass rate. Every cleaner that passed the certificate got \$100 cash from our marketing fund—not from the department. The second time we won it, we could not give them cash; we had to give them a cheque, because GST had come in and the auditor and the tax department told us we could no longer give out cash like that, because it was a bit naughty. So we give them a cheque. They do not have to pay GST on it. We did it a second time and, although the money was less, the number of people we put through was exactly the same. The average TAFE in this country gets, what, a 65 per cent pass rate? As a businessperson, I have great difficulty understanding why we subsidise the public TAFE system so much. I appreciate that you have to have a TAFE system, because there are courses that you could not do any other way. But any businessperson I talk to cannot understand why, in selected areas, you cannot target it in a truly commercial way and get a far better result.

CHAIR—Is there an accreditation system? Is there an accreditation certificate for people who pass this course?

Mr Westoby—Yes, it is nationally accredited—certificate 2, certificate 3, certificate 4.

CHAIR—How long is the course?

Mr Westoby—Certificate 2 is 86 hours, certificate 3 is 130 hours and certificate 4 is 250 hours. That is student contact hours. That is a big problem. Why pay student contact hours? Why not just pay a fee? ANTA will not agree to that. When Grant Keirath was minister, he said, ‘Forget it. ANTA is never going to change.’ But you can actually do it on a fee-for-service basis—as we proved when we won that contract—and get a far better result, not only in pass rates but from an economic point of view.

CHAIR—Mr Holguin, have you ever undertaken any managerial skills training?

Mr Holguin—Very basic stuff, not accountancy type things. I have done some training, yes.

CHAIR—What types of courses have you undertaken and where have you undertaken them?

Mr Holguin—I did a ‘train the trainer’ at Carine TAFE. I did a ‘workplace assessor’ and I have done various other courses in the cleaning industry.

CHAIR—I am actually talking about managerial skills to equip you to run your business as opposed to running the training.

Mr Holguin—I am too busy working to do that. I know where you are coming from. No, I have not. I have done only very basic seminar type things about business, such as bookkeeping and all the other stuff that you might need. I think that would probably be the case with the majority of small businesses.

CHAIR—I think that is right.

Mr Westoby—You are your own worst enemy.

Senator BARNETT—I admire your tenacity and endurance despite the obstacles. I am someone with a lot of empathy for small business. You have really stuck at it.

Mr Holguin—When you have a tiger by the tail, you are frightened to let go in case it gets worse. I have a 14-year-old daughter so that tends to keep me focused, you might say.

Senator BARNETT—I congratulate you on that. Mr Westoby, thank you for your presentation. It was appreciated. You mentioned the GST not being complicated. Is that a view held by your members as well? Do you think that, now they have got on top of that and it is behind them, they have benefited from the process in terms of getting to know their businesses better? Are there any other flow-on benefits?

Mr Holguin—The benefit is they probably know what they are doing in the way of cash flow now. There will still be a couple out there who do not understand it, will not understand it and probably will never understand it. We spent a lot of time and effort trying to educate our members. We got people sent over to do lectures. The ATO did presentations. Unfortunately, as I said before, I think the accountants got hold of it, turned it into a bunfight and confused everybody. Basically, in our industry, there was almost no sales tax, so for our industry it was not a huge issue. The hardest part for us was going to clients and saying, ‘Our price is going up by 9.997 per cent’—we actually sat down and worked it out, because there is no sales tax on labour, and we sell labour.

Senator BARNETT—You are pretty much all labour, yes. You mentioned in your submission the problems with the industrial relations system. You are now under a state Labor government, and there are five different awards that you are talking about here. Going back a step to your employees, what per cent would be union labour?

Mr Westoby—I can probably tell you, because I have just come from another meeting. We estimate in the public sector—that is, not employed by us but by government—you would be lucky to find 10 per cent or 12 per cent. In the private sector—that is, employees of contract cleaners who work anywhere; they could clean public buildings as well as private buildings—you would probably be lucky to find one per cent. That is with the union we currently deal with.

Senator BARNETT—So it is very low.

Mr Westoby—Yes, and that is not because the industry is obstructive; it is because the union—you are recording this so I will not say.

Senator BARNETT—You have talked about the problems and the obstacles you have had. Do you have any examples that you want to give?

Mr Westoby—Industrial relations?

Senator BARNETT—Yes, industrial relations.

Mr Westoby—We accepted 12 months ago that there was a change of government and they were going to bring in new legislation. We gave up trying to change it; we realised that they had made their decision and that was it. So we have tried to work with it and currently we are trying to work with the Liquor, Hospitality and Miscellaneous Workers Union—that is the one we have to deal with—on a new agreement. We spent six days sitting down with them and we have given, given, given. So far we have got absolutely nothing back, which makes life difficult for us. We have a Labor government that currently gives us about \$60 million worth of business in this state and we have a union that we are finding very hard to deal with. The easiest thing would be to flick across to AWAs in the federal arena. If we do that, the government has made it fairly clear that they could not support us with continuing outsourced government work.

Senator BARNETT—Why is that?

Mr Westoby—Because it is a Labor government with a union movement.

Senator BARNETT—Have they made that clear to you?

Mr Westoby—It is what we have read into it, for the record.

Senator BARNETT—So it is not necessarily in writing, in black and white, but the message has come through quite clearly.

Mr Westoby—They are rolling back. They have rolled back all the hospitals in this state. They have now given schools a choice. We do not have problems with our schools having the choice; it is what we told the previous Liberal government—to give the schools choice. Alan Carpenter has stuck by his decision, and so has the Premier, to give schools choice, in this state, as to who cleans their schools, whether it is in-house or outsourced. Unfortunately, the choice is biased. The information they give the schools is not factually correct, but we do not have the machinery to correct the department, as you can imagine.

Senator BARNETT—But some people would argue with you that you should move to an AWA to provide more flexibility.

Mr Westoby—The agreement we will put together—with or without the union—can be done under the new legislation. We could not do it under the previous legislation. Frank made this point: as you may, or may not know, the instigator of individual workplace agreements in this state is Graham Keirath. He is an ex-president of the guild and he is an ex-contract cleaner.

Senator BARNETT—Okay.

Mr Westoby—You learn something every day! From day one we disagreed with him. Three of the members sat down with him and almost became physical with him because he used the minimum wage as the benchmark; we always said it should be the appropriate award, because it would come and bite our industry. It took three years for that to happen. As Frank said, someone used the minimum wage and within a year everyone had lowered their price.

Mr Holguin—I didn't.

Senator BARNETT—In regard to public liability insurance, again, having a small business background I have a lot of empathy with you there and can relate to that. You mentioned your 20 per cent increase, Mr Holguin. You mentioned a 5,000 per cent increase for one of your members, Mr Westoby.

Mr Westoby—Shopping centres and food malls.

Senator BARNETT—Do you have a view with respect to increases across your industry as to an average—

Mr Westoby—The letter we just put out relates to price increases for the next 12 months that should be built in. We estimate that the average is between 300 per cent and 600 per cent. Most major shopping centres in this country are no longer insured; they self-insure. Most of the major contract cleaners like Tempo self-insure because you cannot buy it.

Senator BARNETT—You mention that you are on a three per cent to four per cent profit margin; that threatens that, doesn't it?

Mr Westoby—The industry feeds on itself so it is not all one-sided. But the problem is if anything happens in the costs relating to a cleaning contract, especially in labour, it has an immediate impact on the bottom line. What is happening now is there are some very large national companies that are buying business. If you are making three per cent or four per cent on a billion dollars or even \$500 million you are still making a reasonable profit for your shareholders. What they are doing is holding the price. Prices are not going up in relation to increasing costs. So companies like Frank's—and there are another 100 of them out there—are stuck with this. The prices are not going anywhere. In fact, they have come down. It is the same in the eastern states.

Senator BARNETT—Have you had a chance to look at the reform packages that were announced yesterday by the Premier of Western Australia in regard to public liability insurance?

Mr Westoby—I must admit I haven't, no. Is that where they capped it?

Senator BARNETT—Yes.

Mr Holguin—They announced it on the radio this morning but did not give any details.

Senator BARNETT—As a committee member I certainly would be interested to have your response as to how effective or of what assistance to your industry it might be.

Senator MURRAY—Why would there be five awards in your industry?

Mr Westoby—There should be 14 in this state, if you take all the awards that cover cleaners in this state. Don't ask me. This is WA; we just are different.

Senator MURRAY—Because they fall as part of industry awards, which include cleaners as part of that because there is nothing for the cleaners—

Mr Westoby—In some cases, yes. We have federal awards down the Kwinana strip, where the previous gentleman is from, and we have federal awards if you go and clean up in the north-west. It is just something that happened when those things—

CHAIR—But those would be awards that cover another area that would include cleaners rather than an award that covers the cleaning industry?

Mr Westoby—In some cases they do and sometimes—

Mr Holguin—Some of them don't make a lot of sense. We have the contract cleaners award, we have the education department award and we have the education department award contract cleaners award. It does not make a lot of sense. I pay cleaners who clean offices at one rate; I pay cleaners who clean schools at a different rate, yet they are cleaning up exactly the same type of thing. It does not make a lot of sense to people why these awards were thought up.

Senator MURRAY—Those awards existed under the previous government?

Mr Holguin—That is right.

Senator MURRAY—There is no mechanism in the new law, is there, to match the 1996 federal changes which required the simplification of awards. There is no simplification of awards mechanism in this new legislation, is there?

Mr Westoby—There is.

Senator MURRAY—So will you see the number of awards in your industry reduced?

Mr Westoby—We are currently trying to introduce an agreement—and do not draw me on what I mean by an agreement. We are avoiding using the word 'award' because to an employer that means one thing and to the union it means something else. We are talking about an agreement and if we are successful our intent is to try and wipe out the use of all the other awards. As for how you do that legally and technically, and all the other ways, you obviously need a lot of support from employers, the unions and from the government to make it happen.

Senator MURRAY—In the federal jurisdiction, the result of the 1996 legislation is that two-thirds of the awards have gone; they have been consolidated.

Mr Westoby—I refer to Frank's words about industrial relations and why there cannot be one award: if you are a cleaner, you get paid whatever it is an hour across the country.

Senator MURRAY—I am sympathetic to that.

CHAIR—That is pattern bargaining and is outlawed under current legislation.

Mr Westoby—I heard that this morning.

Senator MURRAY—Is there any other legislation in which you find it difficult because it involves both federal and state laws; or is it just industrial relations which worries you?

Mr Westoby—That is a very interesting question, because at the moment there is an equivalent body to ours down the eastern coast, called Building Services Contract Association of Australia. They are wooing us to join up with them because we are the only state that is not a party to them. The question you have just asked is what we keep asking them, because they are talking about a central office which will go off to Canberra. I have asked, ‘Why will you go off to Canberra? What does Canberra do for the cleaning industry—it does lots of things for other industries—apart from possibly public liability?’

Another area that does crop up is occ health and safety—contrary to what the gentleman said before, I have never heard that. I think that person must have been killing people to do what happened, because I have never, ever heard that happen. I think Frank would bear me out: they will come around; they will talk to you; if you do not comply they will serve a notice on you and you still have time. I have never heard of them doing what they did.

Senator MURRAY—Okay, that is interesting.

Mr Westoby—I think that is a one-eyed view. You are talking about an industry which is perceived to have a terrible track record.

Senator MURRAY—You have said there are far too many different taxes on small business. My impression is that most of the state taxes come through as a cost, so you get a bill which shows rates or you get an insurance bill and they add the levies to it—there is not much compliance cost attached to it. Is it really only payroll tax where you have a compliance problem or are there other taxes we should be aware of?

Mr Westoby—It is probably a perception more than a reality.

Mr Holguin—I think that payroll tax, by its very name, antagonises people in itself. Why would you pay more tax for employing more people? It does not make a lot of sense to me; I think they could have thought of something else. Certainly, from my dealings with government over taxes, the tax department, like the banks, does not have a very good reputation for being user friendly. As my business grew, I had the feeling all the time that if I did not do this or that they had the power to really make my life a misery, and they did that on various occasions. That was simply because I made mistakes—and maybe as Senator Campbell was saying, I did not have training as a manager. I am basically just a grafter who has built a business.

Senator MURRAY—Are you referring to the federal tax system where you did not put in a return and they hit you with a penalty?

Mr Holguin—Unfortunately, what happened with the payroll tax was that I made a mistake—actually it was my accountant who made the mistake and he got the rate wrong for payroll tax. I had an audit and they made me pay. I said, ‘I made a mistake. Where am I supposed to get this money from? Obviously we have passed these costs on to our clients.’ I had never done this before, because I started off as a small business and then I grew and as I grew I passed the threshold. I relied on so-called expert advice and I never got the right advice.

Senator MURRAY—So from the state perception, it is not that there are too many different taxes; it is just primarily the payroll tax?

Mr Westoby—For our industry, 80 per cent of the bid is labour. It is an obnoxious tax and we have attacked both governments on this issue. Unfortunately, as the Constitution stands, the state government cannot tax income—so I have been told and we have just agreed so that is the fact and that is why there is a payroll tax. Try and explain that to the likes of Frank—and I am not putting Frank down, because I have known him for eight years—and to try to get the average small business to understand that is mind boggling. It is difficult even to get some of our major members to understand that payroll tax is a state tax; it is a way they raise money and if that is taken away they have no other way of raising money.

Senator MURRAY—So your other two areas of tax concern are fringe benefits and GST. The pay-as-you-go stuff, the employee return you have to put in, I assume is not an issue. You have mentioned only the GST and FBT. With respect to industry, I understand GST. Why would FBT be a problem for the cleaning industry?

Mr Holguin—There are a lot of people who, for example, might use a vehicle for private use as well as for their job.

Senator MURRAY—Are the people you contract using their own vehicles?

Mr Holguin—Yes. Even in my own organisation, my wife, who is a director of the company, uses a car for work but also uses it privately, so she has to pay the FBT on that. Basically, my way of complying with all the government things is to bring in people who have the expertise such as CPAs. In all honesty, I have a very basic understanding of business: you cannot pay out \$3 if you make only \$2. That is my understanding of business and I have never strayed far from it.

Senator MURRAY—That is why you are still in business.

Mr Holguin—I employ a lady full time who does bookkeeping and is very experienced. She does all that. That is how the majority of small businesses deal with it. I use what expertise I have to generate income to pay for people who have other expertise.

Senator MURRAY—I am trying to get at what you are complaining about. Payroll tax I clearly understand and I agree with you. Are you objecting to there being a fringe benefits tax or the compliance which is required?

Mr Holguin—It is hard to say. From my point of view, I think there are too many taxes. I pay company tax, personal tax, GST, FBT, payroll tax—where does it stop?

Senator MURRAY—Capital gains tax.

Mr Holguin—I do not make any capital gains, I am afraid. I am not that far down the track. I know that the country is a big cake and the government divides it up: 'We need this much to run the country.' The more we try to simplify it, the more complex it seems to get for the average person.

Senator MURRAY—The point you have made—I think it is somewhere here—is that you would prefer fewer taxes with a larger percentage.

Mr Holguin—Most people would. The theory seems to be that, if you simplify it, it makes it easier for people.

Mr Westoby—Having just read this again, a lot of this is in Frank's words. We formed a committee and the committee wrote what is on here. I think he suggested that you increase GST and get rid of payroll tax. You would not want that printed on the front of the *West Australian*. That is a small business view.

Senator MURRAY—The reason I have tested and pushed you on this is that a lot of the letters, submissions and phone calls I receive in the area of tax essentially have this theme. They want fewer taxes and, if you still have to raise the same amount of money, just an increase in the percentage.

Mr Holguin—Isn't that the obvious thing to do? Governments employ huge numbers of experts who think up these ideas, which confound the average person. That is why you have a Senate inquiry. It comes down to what I said at the beginning. When I start my business, there are a few things in there that I do not want to blame government for—competition. If I sound a bit stressed, it is because I am pushed this way by competition and I am pushed this way by government. Competition in our industry is, to me, insane. The best thing we do for each other is cut each other's throat. That is just one part of it.

Senator MURRAY—There is the formal economy, which is the above-the-surface cleaning, and there is the informal economy, where there are loads of cleaners out in private homes. In terms of your industry and the conditions that result from national contracts with government, is most of the formal training that goes on in state and federal government or is it equal in the private sector?

Mr Westoby—The private sector, yes.

Senator MURRAY—I want to know where most of those 24,000 jobs are. Are they in government offices or are they also in business offices, and to what extent?

Mr Westoby—About 50 per cent would be employed by government. When you talk about an office, I am actually thinking of someone cleaning it, but you are talking about who employs them.

Senator MURRAY—That is right.

Mr Westoby—In this state it would probably be something like 30 per cent employed by government and about 70 per cent employed by private enterprise.

Senator MURRAY—And with respect to this characteristic you put on the federal government where they do a national contract, do major businesses do the same thing?

Mr Westoby—They have started to. The federal government is the worst offender but now the banks have done it; Telstra did it. We can fight the state ones. We can take them anywhere we like to fight them. Woolworths have just done it; Coles have just done it. Basically two people sit down in a Sydney office and have a few drinks and decide they are going to do it.

Senator MURRAY—Did I hear you say that your chief wage determinant is the minimum wage?

Mr Westoby—It was, but those days are gone. As of 1 August you cannot do it anymore.

Senator MURRAY—Now it is the award rate or the agreement.

Mr Westoby—It could be one of a number of awards or federal agreements. You have probably got six or seven choices.

Senator MURRAY—With respect to this national contract you are talking about for either a business or for the federal government, what is the wage base that they use for Western Australia?

Mr Westoby—Cheapest price.

Senator MURRAY—Yes, but is it in terms of the agreements you have done here locally or is it in terms of some national price?

Mr Westoby—Are you talking about wages or prices?

Senator MURRAY—For them it is a cost; it is a price. But I want to know whether the determination of wage is made here in terms of the award or the agreement structure or is made nationally in terms of some national award or agreement structure or minimum wage.

Mr Westoby—Two, or it might be three, national companies have national agreements. I am led to believe they are federal agreements. Everyone else in this state is locally owned and they would run under an award or currently workplace agreements and those sorts of arrangements. We have a number of cleaning contractors that have been hit with a federal award.

Senator MURRAY—And is the floor price for that contract, the wage cost, the national minimum wage?

Mr Westoby—Let me come at it from a different direction, because I think you have a miscomprehension. Someone will put a price in of, say, \$100,000, for which they are going to do, to make it easy, 10,000 hours. That is \$10 an hour. This is an oversimplification. Someone will put in a price of \$90,000, so they are going to pay \$9 an hour. In this state you cannot do that; in fact, you cannot do it anywhere in Australia. They will still win the contract. It is driven by price. One and one does not make two.

Senator MURRAY—So you are saying that the minimum wage is ineffective, that people are getting around it?

Mr Westoby—The minimum wage has got nothing to do with it. We are talking about price.

CHAIR—There must be a productivity influence as well.

Mr Westoby—They lie. The contractors lie and the clients abuse it, and the federal government is a classic. It has done so for years.

Senator MURRAY—We obviously are not understanding each other.

Mr Westoby—No, we are talking about two different things.

Senator MURRAY—I am saying to you that the laws of the land say that you cannot pay a person below a certain wage. That is the minimum wage. It does not matter how that agreement is structured—if you pay someone below that minimum wage you are breaking the law. From your answers you seem to be implying that people like the federal government know they are breaking the law by accepting a contract price overall, using your \$90,000 example, whereby it is impossible to pay those people the minimum wage.

Mr Westoby—The contractor just cuts the hours. They do not give the hours they say they are going to give. There is nothing secret about it. They pay the people the right rate; they just reduce the number of hours they put into the contract. If you talk about the minimum wage, there is a state minimum wage and there is a federal minimum wage depending on what sort of industrial relations agreement you have and depending which one applies. Obviously you have got a federal award or a federal agreement—

Senator MURRAY—Federal has to be the national one.

Mr Westoby—The state one in this state was the lowest in the country. It has now come up a bit, and we have lobbied for it to be equal to the award. We do not have a problem with it being equal to the award. Unfortunately, the previous industrial relations minister did not see it that way.

CHAIR—Thank you, Mr Westoby and Mr Holguin.

[5.06 p.m.]

DAVIES, Mr Larry, General Manager Employment, WA Department of Training

STRICKLAND, Mr Richard Jonathan, Executive Director Policy and Evaluation, WA Department of Training

CHAIR—Welcome. The committee has before it submission No. 50. Are there any changes you wish to make to the submission?

Mr Strickland—No.

CHAIR—The committee prefers all evidence to be given in public, although the committee will consider requests for all or part of the evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement. You are free to correct any errors or omissions by the previous witnesses!

Mr Strickland—Thank you for the invitation to appear today. The Minister for Training, John Kobelke, sends his apologies. He is interstate and could not take up the invitation himself. He wanted to put in a submission to ensure that the review has the opportunity to consider the key role that training and the acquisition of skills has in assisting small business in succeeding and expanding, and in its ability to employ more people. Surveys have shown that a significant factor small businesses cite, in terms of whether they will employ more people, is whether there are qualified people available, and that is often the problem.

The important role that training plays has been highlighted by some recent research by the National Centre for Vocational Education Research. It was found that the returns to training are nearly always positive and in fact can be very high. Research indicates that increased levels of training are positively correlated with a number of things, like improved productivity, improvements in product quality, flexibility of the work force, lower turnover, improved safety and increased motivation.

However, the research also indicates that there is quite a reluctance on the part of small business to itself invest in training. There is a lack of awareness of the benefits of training and to some extent indifference to training. There are a number of reasons for this reluctance. The changing nature of the work force, where there is a lot more use of part-time, casual employees and lack of tenure, results in less propensity to invest in training. Another reason is the perceptions of cost that small businesses have. They weigh up the direct costs of training and the sorts of costs that will occur from employees having qualifications and increased wages, and stack that up against the sorts of productivity benefits they might expect. Often they do not see the benefits, certainly in the short-term. There is a general lack of awareness of how training can improve their productivity. Also there is a perception that the provision of training and what is available is not as flexible as it could be to meet their needs and that it is not necessarily relevant to their business. What we are hearing, and what we have put into the submission, is that they want training that is just in time, just enough, cost effective and very focused on the

problems that they are actually facing in their business. Research has found that proprietors who themselves have undertaken training are much more likely to involve their employees in training.

The Department of Training plays a very significant role in providing training in the state. One estimate is that we provide around \$100 million a year in funding for employees who are currently in small business and for graduates who end up in small business. That is through our network of TAFE colleges. We also fund about 120 private training providers in the state.

With all the changes, training has become a lot more flexible and can often be delivered at a time and place that suit the needs of businesses. One of the important strategies that has been employed by this state as well as others is the funding of group training companies. This helps with the cost and flexibility of training for small businesses because apprentices and trainees are indentured to the group training company, but their work experience might be shared over a number of employers. Therefore the problem of an employer not having ongoing work for an apprentice does not occur.

We have been trialing and adopting a number of different programs to increase the uptake of training. Larry can tell you more, but one of the very successful programs is called Small Business Smart Business. We have been issuing redeemable vouchers, valued at about \$200, to small businesses, and they can be used for training or training related services. We have had very positive feedback in the evaluations. Last year we spent about \$1.8 million on the program and issued about 9,000 vouchers. A lot of the training in that program is focused on the proprietors of the businesses.

In terms of other significant strategies, the minister has recently requested our state training board to set up a task force to look into the training requirements for small business in this state and to advise him on any changes that are necessary. We have also been heavily marketing apprentices and trainees with employers, students, parents, schools and the like to try to increase the uptake of apprenticeships and traineeships.

In summary, there are a lot of factors that influence employment in small business—regulation, taxation et cetera—but training is an area in which government can have a very positive influence on the success of small business and its ability to employ people, by increasing the awareness of the benefits of training and by supporting it through funding and incentives and ensuring that the public provision of training is flexible and meets the needs of small business.

CHAIR—Is there anything you would like to add, Mr Davies?

Mr Davies—I will add a couple of comments about some of our initiatives that we think have been successful. For the Small Business Smart Business program, we started off by giving people \$500 vouchers but found that most people did not use all of that. We found that most people did not want to go into a full-time course. They did not go to a TAFE college; they got training from somewhere else and it was not under the national system, a national qualification, which means that we cannot account for that when reporting back to ANTA and meeting our agreements with the national funding arrangement. It is money that we cannot count as having been committed to training, because it does not fit the national definition of what training is. But it is very effective because it actually gets people into the training system who would not

normally have taken it up. Most small businesspeople are not interested into going into a full qualification, which is what we tend to advertise generally.

We tried another initiative. Because of the growing number of home based jobs and home based businesses, we wanted to trial getting them to grow the number of people they were employing. We worked with our state funded employment agencies in a regional area and with the Job Network providers. We said, 'Why don't we, for the next three months, target home based jobs and find out where they are, for a start'—which no-one had done—'talk to them about how easy it is to employ somebody and work through with them the issues that sit there as a barrier'—or a perceptible barrier, at least—'such as that it is too hard, that there is all this legislation, that there is unfair dismissal, and just give them a simple guide on how to deal with all those issues?' Within three months in Mandurah, which has one of our highest unemployment rates, we had 120 new jobs created. That, to us, was quite a significant jump for that region of people into home based jobs. So it is possible to do it.

One of the things with home based jobs, though, is that local government does not recognise them very effectively. The City of Stirling, just north of the city, precludes anyone running a home based business except between nine and five on Monday to Friday. That is not the way the world of work is today. We have those sorts of issues right across the board. Since we did that piece of research and started to push it out to the local governments, a few of them have taken it on and some have even dropped their registration fees for home based businesses; they have opened it up. Those are just a couple of the initiatives that we have worked on.

CHAIR—Given the time of day, I will resist the temptation to have a substantive debate with you about the skills training agenda—or the lack of it—in this country at the moment and focus on the issues relating to small business. I made the comment earlier today that I have just spent two or three weeks in the UK and Ireland. When I was talking to the people who run Enterprise Ireland—which is the equivalent of our AusIndustry and which provides support mechanisms for indigenous companies—they told me that they are spending 40 per cent of their budget on training management. Their argument essentially is that the real problem with small businesses and indigenous businesses is not the skills base per se but the capacity of management to run the businesses and their lack of basic knowledge of what is required in a range of skills.

It seems to me your Small Business Smart Business program is trying to address that—albeit in a fairly, I suppose, moderate sense. What sort of detailed work is happening within your department to look at expanding that capacity? Has there ever been a survey done or an assessment made of the small business community in Western Australia with respect to the level of skills of entrepreneurs or proprietors for running their businesses as opposed to the level of skills for producing the products that they might be delivering?

Mr Strickland—As you are probably aware, this state, like other states, has a network of industry training advisory bodies, and each of those generally has—given that 97 per cent of our businesses are small businesses—a fair representation from small business. Each year, they do an industry training plan after looking at the needs for training throughout each of the industry groups they represent—and management is one of those. I am not close to the detail of what has come out in terms of management training for small business, but I know the work Larry did in setting up Small Business Smart Business was done very much because there was that lack of training at that management level. A lot of management training is conducted in TAFE and it is

becoming more flexible, but attracting proprietors of businesses to do that training in the normal TAFE environment is quite difficult.

CHAIR—Mr Holguin, a previous witness, said he had done ‘train the trainer’ courses and so forth, which obviously focused on his RTO involvement, but he has not done a course specifically equipping him to run the business he is running or to run business generally. I suppose it is a question of whether or not the stick or the carrot is big enough to encourage them into that arena.

Mr Davies—There has been a fair bit of academic research. Curtin Uni have done some on management training in small business—there have been national surveys too—and have found that the skills of small businesses and management in general across Australia are generally poor.

CHAIR—Karpin said that several years ago.

Mr Davies—Yes. We have just done a review of our employment services and one of the areas we want to target is the development of entrepreneurial skills. That is not just for the managers of those small businesses but for the people in the small businesses as well. But fitting that within the national training framework agenda is very difficult because most small businesses do not want to do it in the format that sits comfortably with what ANTA defines as training. That becomes a real tension, so that you are always seeking money outside that arena.

CHAIR—Is this because of a myopic approach by ANTA?

Mr Davies—I think there is starting to be a swell from within the state agencies. I know Victoria have done a similar voucher type arrangement for their small businesses, but they cannot fit it into the national accountability because it does not come out as a qualification. There has been an attempt to use front-line management as a vehicle to overcome that to some extent. It is more flexible; more work and gathering of evidence can be done in the workplace. That seems to be gathering a bit of momentum but it is slow to get that sort of message out to small businesses.

CHAIR—Generally, are the other states focused on this issue as much as Western Australia and Victoria are? Is there a consciousness about this whole issue?

Mr Davies—I think there is, but there is not a huge jump to solve the problem.

Mr Strickland—There is, but the agenda seems to be skewed very much towards medium and large business at the national level. Over the last 18 months, a big focus for ANTA has been national consistency—that training is the same for big employers in every state that they go to and that the conditions are similar et cetera. We have argued that it is only looking at half the representation of employees, so there could be an increased focus in the future.

Mr Davies—If you asked the TAFE system and ANTA about management training, they would roll out the figures. But we know that in the management courses offered through the TAFE system here, you will get a lot of school leavers. They are not going into management, so you have the wrong people going into the courses. That has tended to hide the issue to some

extent as well, because people have been saying, 'We do all this management training and you want us to do more.' It is not more of the same; we need something completely different.

Senator MURRAY—Isn't there also the issue of who does the training? Business people I have spoken to regard the TAFEs—not always and not in every course—sometimes as lacking the expertise and credibility because you go into a classroom and are given a set course by somebody who does not run or manage a business. As you have outlined, there are a lot of young people there who also do not run or manage business and it is kind of a mechanical thing, whereas if they go into an industry association and are trained within the industry association at a registered RTO, they find it far more credible.

CHAIR—I suppose the other end of the spectrum is something like the Mount Eliza Business School, where you have a much more sophisticated level entirely. It seems to me that this area is not well serviced at all.

Mr Davies—I would have to agree with you. We do have a few other examples of where it actually works. With young people going into business, you can run them through a business planning course while they are doing their business plan. They actually have to develop a business plan under Operation Livewire, which we run with Shell and Rotary. Rotary provide mentors to those kids as they start to open up their businesses, and that works quite effectively. Some of the businesses that have opened using that sort of process have been very successful.

You need that sort of mix—the use of mentors and not just a TAFE course. If you are holding it in a traditional room in a TAFE college, you will not get the business managers there. Some of the business enterprise centres around the state run quite effectively, focused one-day or two-day courses or three-hour briefings on change of government policy and those sorts of things. They can build up quite a good set of skills for the managers in their regions, but it requires the individuals in those business enterprise centres to be good at doing that.

Senator MURRAY—Some small business sectors have an absolutely superb product or service training mechanism. For instance, accountants have to do 80 hours to 100 hours of training per annum to retain their professional qualification. Lawyers and those sorts of people have to do that. That system in certain sectors is not accompanied by what we are discussing now, which is broad management training, particularly in the areas of financial and technical systems. It seems to me that the market does not apply the pressures either. New entrants into small business who go to a bank for finance are not asked by banks, as a condition of the finance: 'Where is your certificate in running a business?' When you go to an insurance company to get your public liability insurance or your key man insurance, they do not say, 'We're not going to give this to you unless you've got a certificate in safety' There is nothing in the market. The question I ask you is: should there be any legislative requirement for new entrants—personally, I think it is going to be difficult for existing people—to have certain basic business skills training?

Mr Davies—It is tempting, but I think that you would leave out a lot of people who are actually very good business people who do not have and who will not get those skills.

Senator MURRAY—Because they are not literate or what?

Mr Davies—Partly; that could be the issue. A lot of people from migrant groups are going through our programs and getting into small businesses. A lot of people are coming out of the timber industry. We are helping them to get into businesses. To ask them to get a qualification before they can do that would be a real barrier.

CHAIR—Are you talking about people who are very good business people or about people who are very good at producing what they produce? There is a difference.

Mr Davies—Yes. They are very good at generating enough money to be self-sustaining but not necessarily to grow and to develop that business any further.

Senator MURRAY—There are two intentions, aren't there? And they might be contradictory at times. One intention is to lessen the number of business failures, because that is a cost, and the other is to allow those businesses which succeed to grow and improve their productivity and their abilities. I see those sometimes as contingent but sometimes as contradictory.

Mr Davies—One of the things that was successful which we had with BankWest, before the Scots bought half of it or more, was that we got the bank to accept a business plan as collateral. People who did not have the financial backing to start a business, but who had gone through an improved business planning process and could demonstrate it to the bank and who were able to satisfy the bank that, yes, it met all the bank's requirements for viability, were accepted as having as good as, if not better than, cash backing. I think our success rate on that was double what you would get from a normal start-up process. It did not require people to do a full qualification but it did require them to go through a fairly rigorous process of establishing a business plan that made them check all of those things, including going out to the market and testing what they were going to do. So it made them think about it. Many of the people who were going through that process would go and get a job in the industry, because they would work out that they did not really want to run a business; they just wanted to work in this industry. Doing the market testing, some of them would say, 'If you're so keen, why don't you come and work for me?'

Senator BARNETT—Are you saying that the bank provided that requirement?

Mr Davies—We got BankWest to agree that if they went through our process and got through the committee that assessed their business plan they would accept them as a good risk.

CHAIR—So you set up a committee of people who had had expertise in business—proven business leaders?

Mr Davies—They were mainly people who had retired from business and also someone from the bank.

Senator BARNETT—Do they still do that?

Mr Davies—No.

Senator BARNETT—Why not?

Mr Davies—The management of BankWest changed and it was no longer their business interest. If we had been doing it in Scotland it might have been.

Senator BARNETT—Are you aware of other financial institutions that see it as a huge benefit to have that sort of training and that type of business plan?

Mr Davies—We tried it with some venture capitalists, with young people. They picked up a couple but they were much harder for a government agency to work with because venture capitalists like to work on word of mouth. They would say, ‘Yes,’ and we would say, ‘Where’s the bit of paper that says yes,’ and they would suddenly say, ‘We’re not interested in a bit of paper.’ So they became a bit difficult to deal with. It is a bit hard for a government agency to be saying, ‘Yes, but it would be nice to have a piece of paper.’

Senator BARNETT—I would like to go back to the Small Business Smart Business program and flesh that out to get a grasp of exactly what that was all about. Did you have criteria for who could obtain the \$200 voucher, how it would work and how long it would take? Importantly, could you measure the success of the program and the outcomes? Some people would argue that if you cannot measure the rate of success then it is probably not worth it.

Mr Davies—Our biggest measure of the rate of success, which was the same one the Victorians used, was repeat business. The voucher was just to give people a taste, to get them into the system and show them that it was worth doing. The measure of success was whether they continued on. From memory, the Victorians had about 45 per cent repeat business or it might have been higher than that. Ours was about 50 per cent in the first round. We have not measured the current lot that are out in the market. We have changed it slightly this time and put it out through the business enterprise centres. It is for people who have up to 10 employees.

Senator BARNETT—What other criteria are there?

Mr Davies—None.

Senator BARNETT—And it is annual—that is what you get per year?

Mr Davies—Yes. It is a one-off voucher. It is an advertising strategy as much as anything. It forced the business enterprise centres to find out who could provide training in their immediate region. They went out and explored who could provide accounting training or MYOB training or whatever quickly and easily.

Senator BARNETT—Did that just target home based businesses?

Mr Davies—No, that was any business.

Mr Strickland—Any business with fewer than 10 employees.

Senator BARNETT—You talked about \$1.8 million being spent in relation to home based business though. Is that the 9,000 vouchers?

Mr Davies—That is that program.

Senator BARNETT—You used the Mandurah example earlier on as a case study of success. Do you have a written summary of how that worked and the level of success you got there?

Mr Davies—Yes.

Senator BARNETT—Is there a chance of getting a copy of that?

Mr Davies—By all means.

Senator BARNETT—You mentioned a Rotary joint training program that was very successful. Can you describe that to us?

Mr Davies—Operation Livewire?

Senator BARNETT—Yes.

Mr Davies—It is a competition initially. We put about 100 prospective young business people through. We give them some training first about how to develop a business plan, over a number of weeks. We have been televising that around the state, because one of our biggest problems is the size of this state—it is really difficult. They get that training; they are then matched up with a mentor from Rotary who works with them to develop the business plan and helps them once they get started—depending on how well the relationship works. There is the competition part of it as well, but the most important part for us is having them actually set up their businesses and then get going. The biggest motorcycle dealership in Perth, in the northern suburbs, is owned now by two guys who started through that process. They just had a good idea; they love motorbikes and someone showed them how to do it. They run the big Kawasaki—

Senator BARNETT—Senator Murray asked a question about whether there was a legislative requirement for new entrants to undertake some sort of training, and you indicated that perhaps that is not the best way to go. Do you have another, specific recommendation in regard to providing incentives or do you think the voucher approach is the way to go? Are there other recommendations that you would make to encourage people to actually undertake the training?

Mr Davies—It requires a range of strategies. Regarding Senator Murray's question about the legislation, if they want to enter at a certain size you think: 'Yeah, you might be able to do something there.' There are guys in Aboriginal communities up north where there is no labour market. If they can create a small business that generates some income then that is what we encourage them to do and help them to do. But you would not want them to have to go and get some sort of qualification before they did that, because it would not happen. You would actually stop that part of the labour market—which is quite a significant part now. But once you go to getting a formal company name, you could actually have the requirement, the bank did; that you at least have to have a business plan to get a company name. I am not sure what the trigger would be; I have not thought through how you would actually manage that.

Senator MURRAY—With regard to the Bureau of Stats or the census, is there a map, say, of Perth, which would show where the small businesses are clustered and where the home based businesses are clustered? The reason I ask this is that we have heard discussion about the local governments and how some are greatly facilitative and others are not. I wonder whether that has an effect. I wonder whether in Stirling you would have a big blank map, and the adjoining council would be very populated. Does it have a real effect? Have you been able to statistically establish that?

Mr Davies—No.

Mr Strickland—It is an interesting question, though, and it would be an interesting exercise to do it.

Senator MURRAY—The ATO, I think, register all the tax returns by postal code. I wonder if it is not possible for somebody to go in there and say: ‘Give us a map of where businesses are registered.’

Mr Davies—The ABS have done some work on measuring the number of home based businesses, but I do not know whether they have ever produced a map of where those actually occur. We know that the City of Stirling have a very prohibitive set of rules because it hit the local papers up that way that they threw someone out of their business and told them they could not operate from home any more, even though they were working on a computer based system.

Senator BARNETT—Outside normal times?

Mr Davies—Yes. They said there were too many cars there or someone complained about something and they used that as a vehicle to get rid of this person, for whatever reason. I do not know the ins and outs of it. But there would be a lot of other people running their consulting services or whatever from home across the city of Stirling.

Senator MURRAY—To advance your cause of making local government more facilitative for small business, microbusiness and home based business, there might well be an ability to show statistically the consequence of a negative policy as opposed to a positive policy. I do not know if any work has been done in that area.

Mr Davies—The only thing we do know is that you cannot actually get to those small businesses directly to provide with them with a service, because there is no list of them, and that is because of the council’s policies. The City of Subiaco have withdrawn the need to pay a fee to register home based businesses, because they want to know where they are so that they can offer them some advice and assistance. At Mandurah, we had to go out and do a survey to find them. The city had a register of where the plumber, the spray painter or whoever who might be potentially annoying the community were, but they did not have the rest.

Senator MURRAY—One of the difficulties for people like us trying to examine this area and for people like you trying to activate in the area is a lack of good and reliable data, isn’t it?

Mr Davies—Yes.

Senator BARNETT—Just to drill down a little more on the National Training Authority: there was some frustration about the criteria that would apply so that they could fund the training that you wanted. If they were sitting here, what would they say is the reason? Is it because there should be strict criteria or because there are certain things that need to be done—what would their response be? Because if this is an area where we can make some sensible recommendations, we would like to do so.

Mr Strickland—Basically, what they fund is nationally accredited training. Most of that is now under training packages. Training packages are put together by industry representatives; the national industry training advisory bodies oversee that process. They determine the sorts of competencies that people will get. It is a formal, structured system and it fits well for standard TAFE training. It is supposed to be flexible and in a lot of cases it is. But the sort of training that a small business person might want to access and the way that they want to access it might not be from a registered training organisation, and it might not necessarily be that set of competencies that has been designed nationally. They just want to get out and learn how to use MYOB through somebody local who can do it et cetera. The difficulty for us is that we are funding that, and it does not count towards our accountabilities.

Senator BARNETT—When you raise that issue with them, what do they say? If you say you need more flexibility, what do they say?

Mr Strickland—They get back to the fact that the system has been determined by industry, that it is flexible and that it should meet those needs. The thing is that on the ground the user, when given the opportunity, does not always choose to work within that system.

Senator BARNETT—This is the frustration. Big business, government and the big unions get together, work out the process and set the criteria at a national level, in Canberra or wherever it is. But when you drill down, small businesses such as home businesses are so diverse, from every nook and cranny, that they just do not fit. The round peg does not go into the square hole, does it?

Mr Davies—That would be the argument of the small businesses about training packages; that they have been created by the large players and that they do not necessarily meet small business needs. At the moment, we are trying to introduce into some of the training packages some business training for apprentices coming through the system, because it is not in the training packages. And yet, most of the kids coming through—say, in most of the building areas—are going to be subcontractors, such as a subcontractor brickie. The first thing they do is chuck all the receipts in the back of the ute. They drive around from job to job, and then someone says, ‘You’ve got to put in a tax return.’

Senator MURRAY—There is a hole there.

CHAIR—The problem with ANTA is not the current training packages that they are oversighting or developing, because they are focused on the skills end of the training structure, but that nothing has ever been done—certainly, nothing was ever done about the Carpenter report—about looking at issues like business acumen. How do you define a set of modules that deliver business acumen? It is a bit more esoteric, a bit more difficult to deliver. As John McIlhone reminded me, a lot of the work that this committee has done has actually ensured that

you had to fit into the circle and not the square, because of the shonky practices that people were getting up to which were exposed through the work of this committee.

Mr Strickland—A lot of the focus of the publicly funded training is on entry level training. Once someone is running a business, there is an expectation that they would tend to look after their own professional development.

Mr Davies—In defence of ANTA, to some extent they have always struggled to come up with a measure—for example, a few student contact hours. A student contact hour is an anomaly in a system that is supposed to be competency based—it does not fit. But it is the only one about which everyone is going to say, ‘We can understand that; we’ll agree to that.’ So that is the dilemma that they are facing.

CHAIR—They focused on outcomes and are measuring them as inputs.

Mr Davies—Yes.

CHAIR—I think that has pretty well exhausted it. Thank you, Mr Strickland and Mr Davies, for appearing before us today.

Committee adjourned at 5.45 p.m.